LandlordVision

Making Tax Digital For Landlords

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By
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About Jennifer Adams

Jennifer Adams FCG TEP ATT (Fellow) has been a professional business author for over 15 years, specialising in corporate governance and taxation. She is the senior partner of a family accountancy firm that has been in existence for over 49 years and is also the landlord of a portfolio of properties. As such, she is well placed to advise on any tax problems that landlords may encounter.

Jennifer is a regular contributor to Tax Insider, Property Tax Insider, author of the book published by Tax Insider titled '101 Property Tax Tips' and of the following Tax Insider guides:

- Tax Tips For Company Directors
- How To Use Trusts To Reduce Property Taxes
- Dividend Tax Savings Strategies Explained.
- Investing In Property - Personal Or Company Ownership?

About this guide

Making Tax Digital is the government's plan to move to a fully digital tax system. The stated aim is to make tax administration more effective, efficient and easier for taxpayers to fulfil their obligations, whilst reducing HMRC's overheads for managing the tax system.

This report sets out to clarify what can be expected for and of landlords once the system has been implemented, detailing the practicalities involved with the submission of data and the penalties for non-compliance.

1. Making tax digital for landlords

On 18 March 2015 under the heading 'Making Tax Easier', the then-Chancellor, George Osborne, stood up in Parliament and announced that the chore of submitting annual self-assessment tax returns by 31 January would be abolished. There were loud cheers from backbenchers, but more than nine years on we are still submitting annual returns.

However, HMRC has now confirmed plans to start implementing 'Making Tax Digital for Income Tax' (MTD ITSA) as of 6 April 2026. Preliminary details suggest that the new system will entail greater complexity than merely abolishing the submission of annual returns.

1.1 What is making tax digital?

The two key requirements for MTD are to:

- keep transaction records via a 'digital link'; *and*
- use compatible software to submit returns to HMRC.

HMRC is seeking 'transparency' between a business's underlying accounting records and its tax returns. It believes this approach will reduce the risk of tax errors, enhancing compliance and enforcement efficiency.

Under the MTD system, the method of tax return submissions (termed 'updates') will change. Paper returns will no longer be permitted, nor will taxpayers be able to submit online via their Government Gateway account. Instead, transactions will be recorded digitally and the detail submitted using specific MTD compatible software. The software will electronically link bookkeeping records into HMRC's MTD computers. Importantly, HMRC will not provide software to enable submissions and landlords will be compelled to use commercially produced software.

The use of spreadsheets will still be permitted, however, with initial data being inputted into the purchased software manually. Any further transfer, capture or modification of that data will be by special software (termed 'bridging' software). That same software will submit the information to HMRC directly. Therefore, software will need to be purchased whether spreadsheets are the chosen option or not.

NOTE: Landlord Vision is recognised by HMRC as being fully compliant MTD software and has been written especially for landlords.

1.2 What will stay the same?

No changes are being made to:

- the underlying tax rules;
- the level of detail of information and headings, which will remain the same as with the current self-assessment tax return; ***or***
- the current payment deadlines for income tax.

However, there will be changes to the number of returns (termed 'updates') submitted and dates of submission.

1.3 Which taxpayers will be affected?

The timetable for MTD ITSA has undergone several amendments. It has now been confirmed that (barring any further delays or problems with HMRC's systems), MTD ITSA will apply to all self-employed individuals, and landlords whose annual business and/or property income exceeds £50,000. Those taxpayers will be automatically included within the scheme as of 6 April 2026. Mandatory use of MTD ITSA for the year 2026/27 will be based on gross income figures reported on the 2024/25 self-assessment tax return, submitted by 31 January 2026 (i.e., just over two months before the obligations commence). HMRC will review reported qualifying income and, if it exceeds £50,000, those taxpayers will be automatically entered into the scheme as from 6 April 2026. Taxpayers with income between £30,000 and £50,000 will join a year later in April 2027. Those with income between £20,000 and £30,000 will be required to join at some point, presumably after April 2027.

All relevant sources of income will count towards qualifying income, except for income from employment and investment income. It is important to note that these thresholds are gross trading/property income and not net or taxable profit. Where a taxpayer has more than one trade or has trading and property income, the total figure must be considered.

For example, consider a taxpayer who receives the following gross income:

£25,000
from rental income;

£25,000
from self-employment income; *and*

£5,000
from employed earnings.

In this example, the total qualifying income would be £51,000 and as such that taxpayer would be mandated into the scheme as at 6 April 2026.

Certain exemptions may be made for taxpayers who are unable to use digital tools due to their religion, age or disability. There is also likely to be an exemption for those affected by low internet speeds (under 2 mb/s).

Practical point

There is a 'three-year lock-in' policy. Taxpayers must remain below the MTD ITSA threshold for three consecutive years before they can exit the scheme.

1.4 Compliance

The annual tax return currently submitted every year by 31 January will be abolished for those within MTD ITSA. Instead, taxpayers mandated to the scheme will be required to submit 'updates' every quarter (or more frequently if the taxpayer so wishes). HMRC confirmed in a recent webinar that the submission timeframe will be from 10 days before the quarter end to one month and seven days from the end of each quarter. These quarterly updates will be cumulative, allowing for amendments as part of the following update and eliminating the need to resubmit previous quarters' updates. The standard update periods will be based on the tax year, although calendar quarterly dates ending on the last day of the month can be used, if preferred. Choosing calendar quarters will not affect filing deadlines.

A 'final declaration' will be required by 31 January following the year end. The declaration will confirm data submitted in previous updates and include claims such as the restriction of mortgage interest (if such information has not already been included in previous updates) and other taxable income (e.g., investment and employment income).

1.4.1 Number of submissions

For property income from multiple properties, MTD ITSA regulations require all UK properties to be treated as one 'UK property business', with all non-UK properties kept separate as one 'foreign property business'. Separate records are also required for each country should foreign property be owned in more than one. The minimum number of submissions will be five per tax year; however, depending upon the taxpayer's type and income level, there could be many more, as the example shows.

Example

Julian is a self-employed VAT registered builder and a landlord with two residential properties, one being overseas.

Julian will need to submit:

- a quarterly MTD ITSA 'update' for his UK property business (four reports);
- a quarterly MTD ITSA 'update' for his non-UK property business (four reports);
- a quarterly MTD ITSA 'update' for his self-employed building trade (four reports);
- a 'Final Declaration" for each of the businesses (one report);
- four VAT returns (four reports);

– a total of 17 reports for each tax year.

1.4.2 Real time basis

When an update is submitted, HMRC's computer will calculate the taxpayer's potential tax bill as close to 'real time' as possible. At the same time, it will remind (termed 'prompt') the taxpayer about payment dates. This approach aims to help taxpayers set aside funds for their final tax bill and ensure they pay the correct amount, thus preventing underpayments or overpayments.

1.4.3 Simplification

Although there will be no requirement to submit actual invoices or receipts, this back-up information must still be retained. Eventually HMRC would like taxpayers to use software sophisticated enough to scan receipts so that the details are loaded automatically into the chosen software. HMRC believes this method of 'capture' will reduce the need for manual loading (and, as such, 'mistakes') and the time incurred in creating quarterly submissions. However, since such sophisticated software can be costly, HMRC has not made its use mandatory yet.

Submissions will comprise total figures and the headings will be the standard expense headings currently in use on the property pages of the current self-assessment tax return. Simplified quarterly updates comprising total income and total expenses only can be made should total qualifying income be less than £90,000 before expenses. The advantage of this 'simplification' is that small businesses will not need to analyse their expenses between 14 different categories. However, residential property landlords will need to separately report their property finance costs to claim the 20% tax credit (this claim will usually be made on the final 'end of year' declaration).

Practical point

Many landlords use their personal current account to collect rents and pay expenses. It is recommended that landlords open a separate bank account over the next year to streamline these transactions and make analysing expenses easier. The account need not be a business account but can be a separate ordinary personal current account.

1.4.4 Multiple properties

For those who hold multiple properties within a property business, rental income and expenditure will be recorded as a whole rather than declared per individual property.

1.4.5 Jointly owned properties

Currently, each individual involved in jointly owned properties provides information on their own tax return detailing their share of the rental income and allowable expenses. This process will remain unchanged, each individual being required to maintain digital records for their share of income and expenditure.

1.4.6 How and when will tax payments be made?

HMRC plans to retain the payment deadline dates currently used, namely 31 January and 31 July as required. Voluntary payments will also be permitted at the taxpayer's discretion at intervals of their choosing.

1.5 The new system of penalties

Alongside the introduction of MTD, HMRC has announced a new penalty regime. This regime will be implemented for MTD ITSA starting in April 2026, and possibly for MTD for Corporation Tax in the future.

1.5.1 Late submission

The points system will essentially allow for one penalty-free late submission in a 24-month period. Each update or declaration submitted after the deadline will incur one penalty point. If no further late submissions occur within 24 months, HMRC will automatically remove the penalty point.

If the taxpayer makes a second late submission before the first point has been removed, they will reach the penalty point threshold of two points and a £200 penalty will be charged. They will then remain at the threshold and incur further £200 penalties for each update submitted late until a period of compliance is completed which will result in the points being reset to zero.

After reaching the threshold, the taxpayer must bring all outstanding returns from the preceding 24 months up to date and maintain compliance for the following 12 months. Points will be totalled separately for different submission obligations, e.g., if a taxpayer makes both self-employed and landlord submissions, the points system will operate independently for each.

1.5.2 Late payment penalty regime

The new late payment penalty regime will mean a shorter payment timeframe than the current regime.

There will be no late payment penalty if the taxpayer pays the tax late but within 15 days of the due date.

The charges will comprise:

1. A first penalty set at 2% of the outstanding amount if paid between 16 days and 30 days after the due date.
2. Should any tax remain unpaid 30 days after the due date a set 2% charge will be levied of the outstanding amount at day 15 plus 2% of the outstanding amount at day 30. In most instances this will amount to a 4% charge at day 30.
3. A second late payment penalty is charged at a rate of 4% per annum, calculated on a daily basis on the total unpaid tax incurred from day 31.

Note that a penalty will not be charged for a late payment on account.

HMRC will send a penalty decision letter when a penalty is charged. The taxpayer may appeal against the penalty.

1.5.3 First year

HMRC has confirmed that for the first year of implementation a 'light touch' approach will be adopted for the first penalty. Taxpayers will be allowed 30 days to approach HMRC to request a 'Time-to-pay' arrangement. The 4% penalty will be charged on any unpaid tax where a taxpayer has not approached HMRC by the end of day 30.

1.6 Simplified 'cash basis'

As part of the changes, the method by which unincorporated property businesses account for their property income has been modified. The 'cash basis' of accounting is now the default option for businesses with receipts of less than £150,000 per annum unless the business opts to use the 'accruals basis'.

The 'cash basis' accounts for income and expenses when the income is received and expenses paid. The general disallowance of capital expenditure under the 'cash basis' has been replaced with a specific disallowance for certain assets. Conversely, the 'accruals' or 'invoice basis' accounts for income and expenses based on the date the income is earned or the liability is incurred.

1.7 Probable timetable for 2026/27 and 2027/28

Probable deadlines for submissions for the years 2026/27 and 2027/28 using standard date quarters:

Period Covered	Description or title	Deadline
6 April 2026 to 5 July 2026	1st 'update' 2026/27	7 August 2026
6 April 2026 to 5 October 2026	2nd 'update' 2026/27	7 November 2026
2025/26	Self-assessment tax return	31 January 2027
6 April 2026 to 5 January 2027	3rd 'update' 2026/27	7 February 2027
6 April 2026 to 5 April 2027	4th 'update' 2026/27	7 May 2027
6 April 2027 to 5 July 2027	1st 'update' 2027/28	7 August 2027
6 April 2027 to 5 October 2027	2nd 'update' 2027/28	7 November 2027
2026/27	'End of year declaration'	31 January 2028
6 April 2027 to 5 January 2028	3rd 'update' 2027/28	7 February 2028
6 April 2027 to 5 April 2028	4th 'update' 2027/28	7 May 2028

1.8 HMRC's intentions

When the system is operational, HMRC anticipates being able to run AI-based checks on every business transaction in real time. Many countries already implement e-invoicing, enabling each country's tax authority to verify both sides of a transaction instantly.

As part of the MTD ITSA initiative, it is intended to create an online digital account for all taxpayers similar to how bank accounts are viewed online. This digital account will enable taxpayers to view and manage their tax information in one place including their current ('real time') tax liabilities regardless of the type of tax paid. Ultimately, it is envisaged that taxpayers will have the ability to offset overpayments of one tax against underpayments of another.

1.9 The next stage

HMRC advises that they are 'gearing up' for the 6 April 2026 start date and according to a recent webinar are intending to write to all taxpayers whom they think will likely be mandated into the scheme. HMRC will look at the 2024/25 submission and issue advisory letters from April 2026. HMRC also intends to start an advertising campaign as from February 2025 to inform taxpayers of the new system.

1.10 Testing the system

Sole trader and landlord taxpayers can apply to become familiar with the new system under HMRC's 'private beta' programme. Designed to stress-test the robustness of HMRC's systems the 'programme is available to such taxpayers who meet the following set criteria:

- Their personal details are up to date with HMRC.
- Are UK resident.
- Have a National Insurance number.
- Have submitted at least one self-assessment tax return, or an agent has done this on their behalf.
- Are up to date with their tax records.
- Their accounting period aligns to the tax year i.e., runs from 6 April to 5 April (or 1 April to 31 March).

As the programme is still in the 'Beta' stage some entries will not be possible e.g., a High income benefit entry or claim for Married Couple's Allowance.

It is understood that the 'public beta' testing phase (where it is hoped that the majority of taxpayers will be able to freely join the programme), is likely to be launched in February 2025.

Practical point

Those landlords wishing to take advantage of the 'Private Beta' can do so at this link:

https://www.gov.uk/guidance/sign-up-your-business-for-making-tax-digital-for-income-tax

Final points

Over time, the information submitted under MTD ITSA will provide a comprehensive picture of a taxpayer's property business. HMRC believes this will facilitate more accurate comparisons with other similar businesses than is currently possible; this can only mean more targeted enquiries and, as indicated above, eventually enable more regular tax payments.

Landlords should be aware of these changes and implement procedures to ensure a smooth transition from the 'old' system to the 'new'.

Invest in landlord software

Landlord Vision is cloud-based property management software for busy landlords who need to manage the essential administration of their property and finances quickly and efficiently.

Visit:
www.landlordvision.co.uk