Business Tax

MAKING TAX DIGITAL FOR LANDLORDS

The Making Tax Digital (MTD) programme is the Government's plan to transform the UK tax system by making it more effective and efficient, while making it easier for taxpayers to get their tax right. The Government hopes this initiative will bring UK taxation into the digital age by automating and streamlining certain processes.

WHAT DOES MTD REQUIRE?

Until 2026 the MTD programme is limited to VAT, and requires VAT-registered entities and individuals to store their accounting records digitally and submit their VAT returns through HMRC recognised MTD compliant software such as FreeAgent, Xero, or Quickbooks, etc.

MTD is being extended to cover Income Tax Self Assessment (MTD ITSA) in phases beginning in April 2026.

Landlords with property income above the MTD ITSA threshold will be required to store records digitally, and provide quarterly income and expenditure updates to HMRC, in addition to the
year end self assessment process.

Just like in the Self Assessment tax return, UK Property and Foreign Property income are reported separately. Therefore separate reports are required for each of these income sources each quarter.

For further information please see our "Prepare for MTD" brochure.

WHAT ARE THE THRESHOLDS?

Landlords and self-employed persons with combined annual property or self-employment income above £50,000 will need to follow the rules for MTD for Income Tax from April 2026.

Landlords and self-employed persons with combined annual business or property income between £30,000 and £50,000 will need to follow the rules for MTD for Income Tax from April 2027.

From April 2028, this threshold will lowered again to include combined income from these sources of £20,000 and above.

INCOME FROM MULTIPLE PROPERTIES

Under MTD ITSA you are required to submit one quarterly update for your total UK Property income and expenses. If you also have foreign property, you will need to submit a separate quarterly update for your total Foreign Property income and expenses.

Practically, this will mean either recording all your UK Property transactions in one place ready for submission, or alternatively collating information from various sources via accepted digital-links before submission from one chosen piece of software. The same would apply to Foreign property transactions for that separate submission.

COMPANIES AND PARTNERSHIPS

Currently MTD does not apply to either Limited Companies, Partnerships, or Limited Liability Partnerships (LLPs). The income that individual members of partnerships and LLPs receive from the partnerships is also currently outside the scope of MTD i.e. this does not count towards the gross income thresholds for MTD ITSA.

Therefore if your entire property portfolio is held in Companies, Partnerships, or LLPs, you will not currently be affected by MTD.

However, if you have other sources of qualifying income (self-employment or property income outside the company/partnership) above the threshold in their own right you will still have to comply with MTD; just not for the elements held in Companies/Partnerships.

Looking forwards - the Government has stated it "remains committed to the future introduction of MTD for ITSA to partnerships". We will keep our clients updated with any developments.

HOW DOES THIS WORK FOR JOINTLY OWNED PROPERTIES?

HMRC has acknowledged that jointly owned properties present logistical challenges for digital record keeping. They have therefore introduced some relaxations for those affected.

The starting point is that joint property owners are only required to record their share of the property income and expenditure.

The big news though is that an easement of the digital record keeping requirements has been put into place which means for jointly owned properties only you can choose to submit only income figures on a quarterly basis, and then add your expenditure at the year-end.

Furthermore, for jointly owned properties only, individual transactions are not required to be recorded as part of the digital records. Instead, you will be allowed to input a single total amount for each category of income and expenditure.

Where individuals are also eligible for the general easement of three-line accounting, this can result in a situation where they would only need to:

- make a single "income" entry into their digital records each quarter, and only report this figure in the quarterly update
- make a single "expenditure" entry into their digital records at the end of the year to complete the tax return process

Any combination of the easements can be chosen where eligible, so this can result in a number of different scenarios.

WHAT ABOUT PROPERTY ALLOWANCE OR RENT A ROOM RELIEF?

Income that is not required to be declared on your Self-Assessment tax return is not taken into account when calculating your gross qualifying income for MTD. This is because HMRC look exclusively at the figures in your tax return to determine gross qualifying income.

Therefore if you have if you have Rent A Room receipts below the £7,500 threshold, or property income of less than £1,000 where the trading/property allowance is claimed, this will not count towards the MTD thresholds (provided they have not been included in the Self-Assessment tax return).

However, the quarterly reporting rules are different to the qualifying threshold rules - So if you have to comply with MTD ITSA because of other qualifying income (e.g. you have £55,000 of self employed income), then your quarterly reports must be for all sources of self-employed and property income. This means that the property income covered by rent-a-room relief or the property allowance which was disregarded for the threshold tests is now brought into MTD and has to be reported on quarterly!

“My main income is from self employment, but I have a small amount of property income. How does this affect me?”

The thresholds for MTD ITSA are based on combined gross income (before expenses) from self-employment and property income.

Once your combined gross income goes above the threshold and you have to comply with MTD ITSA, you must submit quarterly updates for each source of income, even if independently one/both would be below the threshold.

For example, during the 2024/25 tax year (the trigger year for the £50,000 threshold) you had Self-employment income of £40,000 and UK Property income of £12,000. The combined income is £52,000, and therefore you must comply with MTD ITSA from April 2026.

Even though each source independently is below the threshold, you must now submit two quarterly updates - one for Self-Employment and another for UK Property.

WHAT SOFTWARE CAN BE USED?

The software used for submitting quarterly updates to HMRC must be MTD compatible.

For Landlords we recommend using either FreeAgent for Landlords, or Hammock. These solutions have been built specifically for landlords and are therefore tailored to your needs.

It is possible however to use other more general software such as Xero, Quickbooks, or Sage; as long as these have been set up correctly for your situation.

If you currently use property management/accounting software you should check whether this software is currently MTD compliant, or if is being developed to be compliant in time for your first MTD quarterly update.

If your existing software will not be compliant in time, you will need to consider either moving away from that software to another solution, or using a second piece of software which is MTD compliant in conjunction with this, using digital-links.

HOW WE CAN HELP

Although 2026 may seem like it is currently along time away it will soon come around. There are many things that you will need to consider, therefore early planning is recommended.

It is important to speak with an accountant when looking to choose an MTD compatible software.

Working with Moore (South) we can give you access to our cloud accounting specialists who are there to guide and train you on cloud accounting software best suited to you and your business.

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