



## Major Changes Coming for Landlords and The Self-Employed

### Introduction

George Osborne, in his spring 2015 budget speech, announced his intention to make tax digital and in the process to “abolish the tax return altogether”. Nobody believed it would ever become a reality!

After numerous delays, Making Tax Digital (MTD) for VAT became mandatory in 2022, although the original proposals were somewhat diluted by allowing businesses to continue keeping their business records on spreadsheets and then link them up to HMRC by using MTD-compatible bridging software, of which there are many free versions available.

Similarly, the introduction of MTD for income tax (MTD IT) has been delayed several times. However, the Government has confirmed that MTD IT will begin being phased in from 6th of April 2026. How this is being done and what the implications might be for you, if you are a sole trader or landlord, are outlined in this document. Be aware, though, that the changes for those affected are going to be very significant and will **involve a lot more reporting to HMRC** than simply filing an annual tax return.

***FBD is here to help you make the transition from Self Assessment to MTD IT, so please contact us on 01236 739280 or at [enquiries@fbdconsultancy.co.uk](mailto:enquiries@fbdconsultancy.co.uk) if you wish to discuss how they might impact your business***

### Quarterly Reporting

Once within the MTD IT, quarterly reporting of income and expenses will be required. These reports will be for every three months of a tax year, which may be different to your business year-end. However, taxpayers with an accounting date of 31st March will be able to operate MTD from 1st April in the first year of operating MTD. This will avoid the burden of additional manual adjustments at the year-end.

Each update will be a **cumulative total** of income and expenses for the tax year to date. This should avoid the need for corrections to previous updates where errors have been identified.

### Finalisation Statement

As well as these quarterly reports a ‘finalisation statement’ will be required after the year-end, which will be a replacement for the annual tax return. This statement will include adjustments to the information provided in the quarterly reports (where needed), a declaration of income and expense from other sources and claims for tax allowances and reliefs.

The filing deadline for this statement will remain 31<sup>st</sup> January following the tax year, the same as that for self-assessment tax returns (SATR) for the moment.

Currently, there is the option to submit SATR using HMRC's free online filing service. From April 2026, **this free service will no longer be available** for those within MTD IT.

### **Who is Affected and From When?**

MTD IT will apply for sole traders and landlords whose 'qualifying income' exceeds a specified threshold (see below). Qualifying income refers to the **gross income** (i.e. before expenses) of sole traders and landlords. All other sources of income reported through self-assessment (e.g. dividends) are **not included** when calculating qualifying income.

The date from which businesses need to join the scheme will be:

- **6 April 2026**, where qualifying income exceeds **£50,000**.
- **6 April 2027**, where it exceeds **£30,000**.
- **6 April 2028**, where it exceeds **£20,000**.

### **Note that:**

- The government intends to continue reviewing MTD and it may subsequently extend MTD IT to those who have income below £20,000.
- No timescale has yet been introduced for the introduction of MTD to partnerships to have to do digital reporting.
- MTD will not apply to corporation tax due to the complexities involved.

### **Exemption From MTD IT**

The following will be exempt from the MTD IT provisions:

- Taxpayers with a power of attorney
- Taxpayers for whom a digital service account cannot be provided
- Carers
- Those who do not have a National Insurance number

HMRC has also announced a number of 'deferrals'. The following groups will not be required to join MTD over the course of this parliament:

- Ministers of religion
- Lloyd's underwriters
- Recipients of the Married Couples' Allowance (which is only available if you are living with your spouse or civil partner and at least one of you was born before the 6 April 1935)
- Recipients of Blind Persons' Allowance

### **When is Qualifying Income Determined?**

In deciding whether an individual needs to register for MTD for a tax year, HMRC will look at the return the tax return that should have been submitted in the January before the tax year being considered.

### **For 2026/27**

HMRC will look at the **2024/25** tax return (which should have been submitted by the 31 January 2026) to check to see if qualifying income exceeds **£50,000**.

### **For 2027/28**

HMRC will look at the **2025/26** tax return (which should be submitted by the 31 January 2027) to check to see if qualifying income exceeds **£30,000**.

### **For 2028/29**

HMRC will look at the **2026/27** tax returns (which should be submitted by the 31 January 2028) to check to see if qualifying income exceeds **£20,000**.

### **More Than One Source of Qualifying Income**

Income from all relevant sources will count towards qualifying income.

#### **Example:**

Graham has gross income (i.e. before expenses) declared in the 2024/25 tax return as follows:

- £23,000 from rental properties
- £31,000 from self-employment

Total qualifying income is therefore £54,000.

As his qualifying income exceeds £50,000, he will have to register for MTD IT for 2026/27 and make quarterly returns for both his rental business and self-employed businesses.

### **Landlords**

Many landlords often deal with only a small number of transactions each month or even employ the services of a management agent to deal with their affairs.

Under MTD IT, landlords will have an increased workload, as they will be expected to:

- Keep software records (even where properties are owned jointly); and
- Submit quarterly updates online.

### **Jointly Owned Property**

Where a property is owned jointly, taxpayers must include **their share** of gross property income as qualifying income.

#### **Example:**

Where a property is owned jointly and generates £52,000 of rental income in a tax year, each taxpayer will include their 50% share, so £26,000. If each taxpayer has no income from self-employment and no other income from rental properties, they will both be below the threshold for MTD IT until 2028/29.

## Note

If a taxpayer has a jointly owned property and only receives notice of their share of the income after expenses have been deducted, HMRC has confirmed that they should use the net figure for qualifying income.

## Information Required by HMRC

Each quarterly update must be submitted no later than **one month and 7 days following the end of the relevant quarter** (e.g. 7<sup>th</sup> August for the first quarter of 2026/27, which ends on either 30<sup>th</sup> June 2026 or 5<sup>th</sup> July 2026).

The update must include:

- The quarterly update period start date and end date; and
- totals falling within the income and expenses, in the categories set out below - see 'Reporting Categories'

### Where income is over the VAT threshold

- Relevant persons with income over the VAT threshold (currently £90,000) must provide totals for each of the detailed categories that are listed below.

### Where income is under the VAT threshold:

- Self-employed individuals and landlords are only required to submit two figures (total income and total expenditure) instead of the totals of the amounts falling within each category listed below.  
*[This option is also available to relevant persons who jointly let properties.]*
- If there are residential property finance costs (e.g. mortgage interest costs or arrangement fees), landlords will be required to create a separate digital record for these costs.

## Reporting Categories

### Non-Property Businesses

#### Income

- Turnover, takings, fees, sales or money earned
- Any other business income

#### Expenses

- Cost of goods bought for resale or goods used
- Construction industry: payments to subcontractors
- Wages, salaries and other staff costs
- Car, van and travel expenses
- Rent, rates, power and insurance costs
- Repairs and renewals of property and equipment
- Phone, fax, stationery and other office costs
- Advertising
- Business entertaining costs
- Interest on bank and other loans

- Bank, credit card and other financial charges
- Accountancy, legal and other professional fees
- Other business expenses

### **Property Businesses**

UK and overseas businesses must be reported separately.

#### **UK Property Businesses**

##### **Income**

- Total rents
- Other income from property
- Premiums for the grant of a lease
- Reverse premiums and inducements

##### **Expenses**

- Rent, rates, insurance and ground rents
- Property repairs and maintenance
- Non-residential property finance costs
- Residential property finance costs
- Residential finance costs brought forward
- Legal, management and other professional fees
- Cost of services provided, including wages
- Travel expenses
- Other allowable property expenses.

#### **Overseas Property Businesses**

##### **Income**

- Total rents
- Other income from property
- Premiums for the grant of a lease

##### **Expenses**

- Rent, rates, insurance and ground rents
- Property repairs and maintenance
- Non-residential property finance costs
- Residential property finance
- Unused residential property finance costs
- Legal, management and other professional fees
- Cost of services provided, including wages
- Travel expenses
- Other allowable property expenses

#### **Jointly Let Property Businesses**

Relevant persons with property income from a jointly let property may choose whether to provide the totals of amounts falling within:

- The property income and expenses categories (as outlined above): or

- The property income categories only.

Where a relevant person makes quarterly updates containing digital records for their income only, they will be required to enter a single figure for their share of the expenses at the end of the tax year.

### **Retail Businesses**

Each tax year, a relevant person can choose to submit a single record of their total daily gross retail sales, rather than each individual sale, for their retail business.

The digital record for gross daily retail sales must include:

- All payments received by the relevant person. This includes payments by cheque, debit or credit card, as well as cash received.
- The full value of all credit or other non-cash retail sales received by the relevant person or on the relevant persons behalf.

There are various items that may be excluded when calculating the amount of daily gross takings, including:

- Counterfeit notes
- Inadvertent acceptance of foreign currency; and
- Void transactions.

### **Adjustments and Claims**

There is a long list of further adjustments and claims that taxpayers will need to consider in the finalisation statement.

**For a non-property business**, this includes:

- Annual Investment Allowance
- Capital allowances for main pool costs
- Capital allowances for special rate pool costs
- Capital allowances for single asset pool costs
- 100% and other enhanced capital allowances
- Adjustment for change of accounting practice
- Averaging adjustments (mainly available to farmers and creative artists)
- Zero-emissions car allowance
- Electric charge point allowance
- Structures and buildings allowance

**For a property business**, the adjustments include:

- Private use adjustment
- Cost of replacing domestic items
- Loss brought forward used against this year's profits
- Rent-a-room exempt amount
- Annual Investment Allowance

- Property income allowance
- Structures and buildings allowance (non-residential properties)

### **Software**

You will have to use commercial software that works with MTD IT once you come within this new reporting regime.

Your chosen software must enable you to:

- Create, store and amend digital records of the income and expenses of your business
- Send quarterly reports to HMRC
- Submit a finalisation statement (effectively your tax return) by 31 January after the end of the tax year; and
- Receive information (such as tax estimates) from HMRC.

Remember that the finalisation statement will include any other sources of income or gains that need to be declared, not just your final figures from self-employment or property letting. You should check with the software provider that their product meets your needs.

### **Spreadsheets**

If you decide to keep using your current spreadsheets or accounting software, you can connect them to HMRC for reporting purposes via bridging software that is compatible with MTD IT. However, unlike the MTD for VAT, it seems likely that free versions of bridging software will not be readily available.

### **Submissions to HMRC**

As discussed earlier, when you are using MTD IT, you will need to make two types of submission to HMRC:

- Quarterly updates; and
- Your finalisation statement

Some software can submit both, but other products will only do one, so it's important to check first.

### **Reporting Income Sources**

Some software will be able to report all business income sources, whilst others may focus on a specific source. For example, there are products that are designed specifically for landlords.

Further details on software available can be found at:

<https://www.gov.uk/guidance/find-software-thats-compatible-with-making-tax-digital-for-income-tax>

### **Payment of Tax**

There are no plans at present to change the way self-employed individuals and landlords pay their tax through self-assessment i.e. two payments on account (on the 31<sup>st</sup> January in the tax year and 31<sup>st</sup> July following the tax year) plus (where needed) a final balancing payment on 31<sup>st</sup> January following the tax year. However, it is easy to imagine that, once the Government has taxpayers reporting their income quarterly, it may get them to pay their tax quarterly too.

### Testing the IMTD IT Service

HMRC has been trialling MTD IT during 2025/26 with businesses that volunteered to participate in a pilot of the system. This opportunity is not currently available. However, HMRC is expected to reopen voluntary enrolment closer to April 2026, to allow taxpayers to familiarise themselves with the new system before it becomes mandatory.

### Latest Guidance

In late November 2025, HMRC published two further pieces of guidance on MTD. Matters covered include:

- Information about what digital records must be kept when using the trading income allowance, the property income allowance or the Rent-A-Room scheme;
- Changing MTD software, both at the end of, and within, a tax year;
- Ceased income sources;
- Those who use averaging relief (e.g. farmers and creative artists).
- Carers eligible for qualifying care relief
- How your tax residence affects your qualifying income.

For more information, see:

<https://www.gov.uk/guidance/use-making-tax-digital-for-income-tax>

<https://www.gov.uk/guidance/work-out-your-qualifying-income-for-making-tax-digital-for-income-tax>

### Conclusion

These changes are hugely significant for the self-employed and landlords, as they will greatly increase the tax compliance burden on these businesses. Additionally, more reporting to HMRC means a greater chance of making errors and incurring penalties.

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