



**The complete
guide to MTD
for landlords**

Introduction

While the journey to Making Tax Digital (MTD) has seen a few hiccups and delays, the path forward is clear: tax is going digital, and the time to prepare is now. But what exactly does that mean for landlords?

The good news is MTD doesn't need to be intimidating. It's an excellent opportunity to pull your accounting processes together under one umbrella, keep track of your rental income and business expenses, and understand your finances better than before.

VAT-registered landlords will already be familiar with this initiative — but it's still essential to prepare for MTD for income tax self-assessment (MTD for ITSA) when it rolls out in a few years.

In this guide, we'll explore the ins and outs of MTD for landlords, including how it works, when it applies and how to get ready for this new way of doing taxes.

Let's dive in.

Chapter 1: What is MTD for landlords — and how does it work?

Making Tax Digital is central to the Government's plans to upgrade and modernise the tax system. The initiative aims to move away from the current tax return process in favour of a more digital approach.

Currently, landlords and self-employed businesses must report and pay tax by filing an annual self-assessment return via the Government website. Under MTD, however, these taxpayers must use HMRC-approved software to keep financial records and do their taxes digitally.

Most VAT-registered businesses will already be familiar with this process, as MTD for VAT has been mandatory since April 2022.

According to HMRC, this new way of doing taxes will:

- make it easier for taxpayers to get their taxes right
- allow businesses to integrate tax management with other processes
- save time and improve productivity
- reduce the amount of tax lost to avoidable mistakes.

While the scheme only affects VAT-registered landlords at the moment, MTD for income tax self-assessment (MTD for ITSA) will roll out from April 2026. If you make more than £30,000 a year from your rental properties or other income, familiarising yourself with the process is vital.

MTD-compatible software

The role of MTD-compatible software is to fully integrate your financial data with HMRC. The software then sends that information to HMRC on a quarterly basis – replacing the need for manual return filing.

Most mainstream software providers like Xero, QuickBooks and Sage are already compatible with MTD for VAT, but you can find a complete [list of approved software](#) on the HMRC website.

Understanding the MTD timeline

It's no secret that the path to MTD has seen its fair share of setbacks and changes since it was first announced in 2015, so where are we now?

MTD for VAT

If your turnover exceeds the £85,000 VAT threshold or you signed up for VAT voluntarily, you're probably already complying with [Making Tax Digital for VAT](#).

As of April 2022, all VAT-registered businesses (including landlords) are required to use HMRC-approved software to:

- keep digital records of their transactions
- submit their VAT returns.

That means if you sign up for VAT now, you'll need to comply with MTD for VAT rules from day one, regardless of your turnover.

MTD for income tax

While the second leg of the scheme, MTD for ITSA, was initially scheduled for 2018, the timeline has shifted several times. The latest delay means self-assessment customers won't need to comply with MTD for ITSA until April 2026.

The rules won't affect everyone at once, either. In December 2022, the Government announced a [phased approach](#) to implementing MTD for ITSA. The new dates for complying with the scheme are as follows:

- 6 April 2026 for private landlords and self-employed individuals with an annual income over £50,000.
- 6 April 2026 for private landlords and self-employed individuals with an annual income between £30,000 and £50,000.

Currently, there's no set date for either business partnerships or individuals making less than £30,000 a year. However, the Government has launched a consultation into how MTD for ITSA can best accommodate the needs of smaller businesses.

As MTD for ITSA has been postponed several times in the last few years, there's a chance the timeline could change again. As your accountants, we can keep you up-to-date with any new developments regarding MTD for landlords as soon as they emerge.

What do I need to do under MTD for income tax?

Although 2026 may seem far away, understanding your obligations as a self-assessment taxpayer can make it easier to stay compliant when you fall under the scope of MTD for ITSA.

Here's a breakdown of the MTD process for landlords:

- **Keep digital records:** Taxpayers must use MTD-compatible software to store digital business records.
- **Submit quarterly reports:** You'll use your software to update HMRC with a digital record of your income and expenses every three months. These updates will give you an estimate of your tax bill – but you can adjust them to make them more accurate.
- **End-of-period statement:** At the end of the fiscal year, you'll send an annual overview known as an end-of-period statement.
- **Final declaration:** This is where you finalise your end-of-year tax position and determine how much income tax you owe. If you need to make any accounting adjustments, you must do so before submitting your final declaration.

While this new process may initially seem daunting, your MTD-compatible software should prompt you to complete these steps as you approach deadlines. You can also reach out to your accountant if you want more advice on staying compliant with MTD for landlords.

Chapter 2: When do landlords need to comply with MTD?

So, when does MTD for landlords come into effect? Your reporting obligations for MTD for VAT and MTD for ITSA will vary depending on your rental income, annual turnover, other income sources and more.

VAT returns

All businesses, including landlords, are required to [register for VAT](#) once their turnover exceeds £85,000 over a rolling 12-month period.

If your cumulative taxable income, including rental income, exceeds this amount, you're legally obliged to register for VAT, collect tax on the Government's behalf, and comply with MTD for VAT.

You must also sign up for VAT if you believe you'll cross this threshold within the next 30 days. Alternatively, you may choose to sign up to VAT voluntarily. As a result, it's wise to monitor your turnover and familiarise yourself with Making Tax Digital rules, even if you currently have no VAT obligations.

MTD for ITSA

As mentioned, landlords making more than £50,000 a year will need to comply with MTD for ITSA by 6 April 2026, while those earning between £30,000 and £50,000 won't need to comply until 6 April 2027.

If you have multiple properties or income streams, you'll need to aggregate your earnings to work out which threshold you fall into.

For instance, if you own three properties with annual incomes of £20,000, £15,000, and £18,000, respectively, your combined income is £53,000, which means you'd need to meet MTD for ITSA rules for the 2026/27 tax year. Your calculations should include any earnings from businesses you own or receive – not just your rental income.

It's also worth thinking about how much you're likely to make when MTD for ITSA comes into effect. If you currently make under £50,000 but plan to invest in more rental properties in 2024, for example, your earnings could rise above the threshold by 2026.

MTD for landlords: Non-compliance penalties

So what happens if you fail to meet your reporting obligations under MTD?

While the Government acknowledges that taxpayers need time to get used to this new way of doing taxes, non-compliance can result in a hefty fine.

On 1 January 2023, HMRC introduced a new [points-based penalty system](#) for MTD for VAT, which will also apply to MTD for ITSA when it rolls out in 2026.

Taxpayers will now accrue one point for every late submission under MTD. If you exceed the penalty points threshold in any accounting period, you'll receive a £200 penalty. Repeat offenders will also receive a further £200 fine for each subsequent late submission after exceeding the threshold.

Chapter 3: Benefits of MTD-compatible software for landlords

MTD hinges on accounting software. Compatible software enables people to digitise their accounting and tax processes, sending their financial data to HMRC automatically.

But moving your accounting processes to the cloud offers many other advantages to landlords beyond compliance:

Digital records

HMRC-approved cloud accounting software like Xero or QuickBooks allows for organised and efficient digital record-keeping. Instead of pouring through manual ledgers or piles of paper receipts, landlords can use software platforms to record, categorise and manage their financial transactions digitally.

Automation

If you link your accounting software with your business bank account, many platforms will automatically categorise your rental income and business expenses, saving you time and reducing the risk of manual entry errors.

Using cloud accounting technology to automate manual tasks such as invoicing or cashflow forecasting can free up more time for you to spend on your other duties as a landlord or focus on more strategic aspects of property management.

Direct submission to HMRC

Instead of you manually filling out a form on the Government website, MTD-compatible software sends the required tax data directly to HMRC. This submission process improves both accuracy and efficiency.

Integrations

The best software solutions integrate with other financial tools, providing you with a comprehensive view of your financial position. This is especially beneficial if you juggle multiple properties or income sources.

Data-driven decision-making

With digital tools providing real-time financial insights, you can also make more data-driven decisions. The right accounting software can help you optimise your pricing, flag areas for improvement and estimate your rental business's future financial performance.

Chapter 4: Preparing for MTD for income tax

As the countdown to MTD for income tax begins, landlords should gear up to prepare for their new responsibilities.

While it might seem like a compliance exercise, MTD for landlords can be opportunity to streamline operations and gain better insights into your finances.

Of course, it does represent a technological shift – and that will suit some better than others. Luckily, most accounting software is intuitive and easy to use, even for those who consider themselves less tech-savvy! Here are our top tips for meeting your obligations under MTD.

Bookkeeping practices

Organising your paperwork ahead of time can make the MTD transition much smoother. While the scheme aims to simplify your recordkeeping, you'll still need to do some legwork yourself – or ask your accountant to do it for you.

Staying on top of your books can also give you a firmer grasp of your financial health. This is particularly important if you have a large property portfolio or you're juggling multiple income streams.

Keep all your receipts

You'll need to keep records of all your business transactions – income and expenses. That includes holding onto any paperwork or receipts related to rental income, maintenance costs and any other services you provide to your tenants.

Ensuring your records are up to date is essential for ensuring accuracy and saving you time on your tax returns. Consistent digital data entry can also make it easier to comply with MTD for ITSA rules when they come into play.

Regularly review your accounts

Making and learning from mistakes is how many business owners learn and grow – but what if those mistakes could result in a hefty penalty from HMRC?

Regularly reviewing your accounts with your accountant can help you identify any discrepancies or omissions ahead of time. If the numbers don't add up, you can address the issue early on, reducing the chance of non-compliance fines.

MTD-compatible technology

Adopting cloud accounting software now can make the transition to MTD for income tax much smoother. If you give yourself time to familiarise yourself with all the different tools and functionalities, you'll feel more confident when meeting your reporting requirements under MTD.

Choose the right software provider

With so many cloud accounting software options available, it can be difficult to know which package to choose. Every landlord is different, so there's no one-size-fits-all solution here – you need to find something that works for your rental business.

At Lumin, we partner with popular software companies, including Xero, QuickBooks and ClearBooks. If you need help weighing up your options, we can talk you through the pros and cons of different packages to ensure you get the most out of your software.

Work with experts

While the goal of MTD is to simplify the tax system, familiarising yourself with a brand new process and moving all your records onto HMRC-approved software can be complicated and time-consuming. The extra administrative burden will be particularly heavy for those with sizeable real estate portfolios or multiple businesses.

The good news is you don't have to take on the challenge alone.

As your accountants, we'll guide you through every stage of the MTD journey. Combine the power of technology with our accounting and tax expertise, and you'll be able to move your rental business forward with confidence.

Chapter 5: Conclusion

While MTD has experienced delays, the countdown is now on. The scheme is rolling out to thousands of landlords and self-employed individuals from 2026.

As we've seen, MTD rules may apply to you before April 2026 if you exceed the VAT threshold or decide to register voluntarily. So, don't assume you've got until 2026 to sort it out!

Beyond complying with MTD, moving your bookkeeping and accounting processes into the cloud is the way forward – it'll enable you to visualise income and expenses in one location.

At Lumin, we strongly believe in the role of technology in accounting and advice. We can help you navigate the complexities of MTD for landlords, ensuring that you remain compliant and confident in your financial affairs.

As a landlord, being well-informed and prepared for this change will ensure compliance and help streamline your financial operations.

Lumin is here to support you on this journey, providing warm, clear and comprehensive guidance every step of the way.

Contact us to find out more about MTD for landlords how we can help you thrive in the digital tax era of tomorrow.

**Ready to find
out **more?****

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