DENTAL & MEDICAL
FINANCIAL SERVICES

Dental & Medical Financial Services
1 Market Square, Horsham,
West Sussex RH12 1EU

T: 01403 780 770
F: 01403 780 771
E: info@dentalandmedical.com
W: www.dentalandmedical.com

Making Tax Digital: What landlords need to know

Are you ready to navigate the digital system before it becomes compulsory for your income bracket?

Making Tax Digital is a nationwide programme introduced to simplify and enhance the effectiveness of self-assessment income tax reporting and administration. It does not only apply to landlords; if you run a business or work as a sole trader, these new rules are likely to affect you as well.

Instead of submitting a single end-of-year tax return, landlords subject to the new rules must submit quarterly online reports of their income and expenses to the national tax authorities. It is important to note that these quarterly updates are not full tax returns. They are merely regular summaries showing the progress of your property business throughout the year.

You will need to submit these updates using compatible software that allows you to record your income, expenses, and receipts digitally as you go. After each submission, the system offers an estimate of your final end-of-year tax bill, helping you manage your finances efficiently.

Preparing for the changes

The deadline for submitting and paying your annual return remains unchanged at 31st January, as your software will automatically gather all necessary information from your quarterly updates. If your total annual income from self-employment and property exceeds £50,000, you must adhere to the new digital rules for the upcoming tax year starting on 6th April.

To establish your qualifying income, simply combine your earnings from self-employment and property from the previous tax year, excluding other sources such as pensions, dividends, and regular employment wages.

To begin, you must select an approved software provider. There are many free and paid options on the market, ranging from simple bookkeeping tools to comprehensive all-in-one systems.

If you already use standard spreadsheets, you can obtain bridging software that ensures your current records work smoothly with the new government system. Once your software is in place, you need to register for the digital scheme online, provided you are already registered for self-assessment and have submitted a tax return in the past two years.

Managing your ongoing administration

The new system requires you to keep your income and expenditure records up to date, meaning you must file your receipts digitally on a strict quarterly schedule. If you are used to leaving your tax return until the last minute, you will need to adapt and become comfortable making regular digital entries, perhaps setting aside time once a week for administrative tasks.

You should begin maintaining records with your chosen software from 6 April, with the deadline for submitting your first quarterly update on 7 August. Many landlords wonder what happens if their income fluctuates or if they make an administrative error.

If your income was below the threshold last year but rises above £50,000 this year, you will only need to start using the digital system the year after you reach the qualifying amount. If you make a mistake in a quarterly update, you can simply correct it in your software, and the system will automatically reflect the correction in the next update you send.

Looking ahead to future requirements

While tax authorities will not issue penalties in the first year of implementation, a strict points-based penalty system will come into effect thereafter. You will earn points for missing quarterly updates, submitting a late final annual declaration, or failing to keep proper digital records, which could lead to substantial financial penalties. It is highly recommended to familiarise yourself with the process early to avoid any unexpected fines.

Even if your current earnings are below the £50,000 threshold, you should prepare for upcoming implementations of the scheme. From April 2027, the threshold will decrease significantly to £30,000, meaning many landlords will need to begin submitting quarterly updates.

Furthermore, those earning over £20,000 will be legally obliged to comply by April 2028. You can register now to become familiar with the digital system before it becomes a mandatory requirement for your income bracket. ■

Ready to find the right mortgage for your property investment?

If you're feeling overwhelmed by the complexities of securing the right mortgage for your property investment, we're here to assist. Contact us, we look forward to hearing from you.