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# A landlord's guide to Making Tax Digital

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A landlord's guide to Making Tax Digital

Making Tax Digital for Income Tax Self Assessment (ITSA) launches in April 2024. The legislation will change how landlords earning above £10,000 report their income and expenditure.

Until now, **Making Tax Digital has only impacted VAT**. In 2019, businesses above the VAT threshold had to comply with MTD rules. In April 2022, businesses below the VAT threshold followed.

MTD for ITSA was originally scheduled for April 2023, but HMRC postponed this by another year to give landlords and sole traders more time to prepare. From April 2024, landlords will need to ensure they're using compatible software to keep digital records and make compliant tax submissions.

In this guide, we'll take a look at how landlords should prepare for **MTD for ITSA**. We'll explore ITSA submission requirements, and highlight the importance of cloud-based software for compliance.
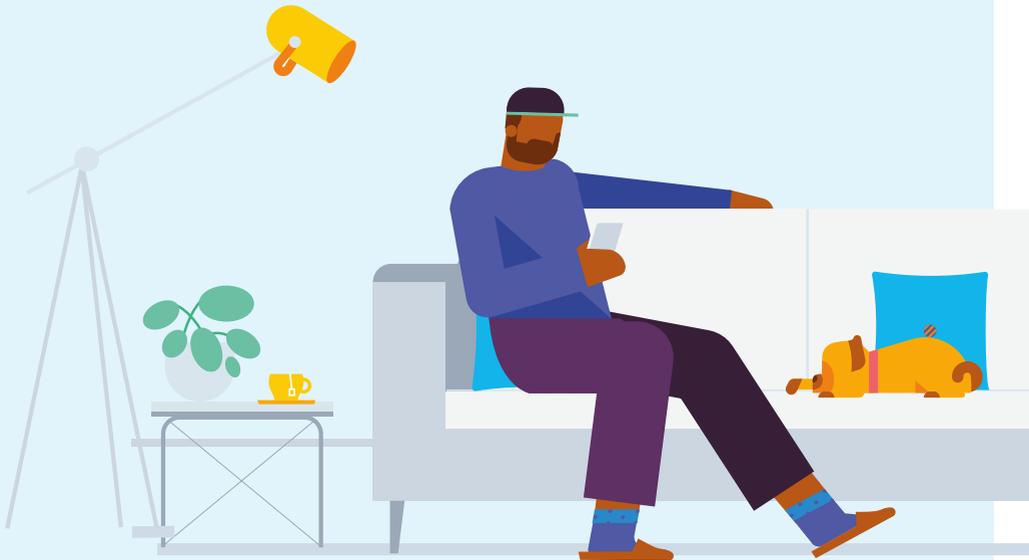
Who's impacted by MTD for ITSA?

From April 2024, if your income from property alone or property and any self-employed business exceeds the £10,000 threshold, you'll need to follow **MTD for ITSA rules.** That means submitting quarterly returns using compatible software, as well as an End of Period Statement (EOPS) and Final Declaration.

Whether you need to comply with MTD for ITSA will depend on your employment type and earnings. For example:

- **If you're a landlord with an annual rental income above £10,000 and are not registered as a limited company** you will need to comply with MTD for ITSA rules.

- **If you're a landlord and you're registered as a limited company** then MTD for ITSA will not apply to you. Instead, you'll need to continue providing Companies House and HMRC with limited company accounts and company tax returns (CT600).

- **If you're a landlord and you're registered as a sole trader** (e.g. earning £7K from a rental property, plus you're an electrician earning enough income to take you above the £10,000 combined threshold) you'll need to register for ITSA.

- **If you're a landlord earning less than £10,000 a year** you don't need to sign up for MTD for ITSA. You can continue submitting a yearly self-assessment via HMRC. However, using cloud-based software could still be beneficial for tracking your finances (see page 8).

- **Furnished holiday lettings (FHL), commercial property and non-UK properties** are also included within the scope of MTD for ITSA. Earnings from any of these categories will count towards the threshold.

Who's impacted by MTD for ITSA?

Here's a glimpse of what that could look like in real life:

Scenario A: Kate

Kate inherited a property from her parents. Annually, she earns £11,000 from renting the property. Because her income from property is above £10,000, she'll need to follow MTD for ITSA rules from April 2024.

Scenario B: John

John owns a property that he rents for £8,000 a year. John is a salesman employed by a business, so the company payroll takes care of his tax and national insurance contributions. John can continue filing a self-assessment return through the old system because he earns below £10,000 from property.

Scenario C: Farzeen

Farzeen is a self-employed caterer earning £9,000 a year. He also has a rental property which earns him £7,000. The combined total of his business and property earnings is £16,000, so he'll need to follow MTD for ITSA rules from April 2024.

A closer look at MTD for ITSA submissions

Submissions are made up of three separate parts. Instead of sending a single yearly income tax submission, landlords will need to submit quarterly updates, an End of Period Statement (EOPS) and a Final Declaration. Cloud-based software can help you and your accountant with compiling your quarterly updates and complying with the rules.

All three elements are new to the Income Tax system, so here's a quick look at what you need to do for each:

Quarterly updates

You'll need to send quarterly reports of income and expenditure to HMRC from compliant software. Put simply, that means using cloud-based accounting software to store and maintain your financial records, and using those records to send updates to HMRC.

Storing records digitally means you'll always have a clear picture of your business finances. Using the information already logged in your software, you or your accountant will quickly be able to pull together your quarterly update.

Your software will tell you when you need to submit an update. You can send updates more frequently, but no less than quarterly. Quarterly periods and submission deadlines can be found **here**.

End of Period Statement (EOPS)

At the end of the tax year, you'll need to finalise your income with an End of Period Statement. One EOPS is required for each source of income. So, if you own a small business and a rental property too, you need to submit two separate EOPS. The deadline for submission is January 31st after your tax year.

You should use your End of Period Statement to:
- Make any adjustments to your accounting
- Claim reliefs
- Confirm that the information you've provided is correct and complete

A closer look at MTD for ITSA submissions

Final Declaration

In your Final Declaration, you'll need to declare any additional income you've received, and submit your claims for reliefs. This needs to be submitted by January 31st, which is also the deadline for paying any tax you owe.

Missing any of the **deadlines** for submission or payment could incur a **penalty**. You can review all of the deadlines **here**.

Key points to consider:
1. Deadlines for finalising tax and paying your tax bill are not changing.
2. Your quarterly updates will provide an estimate of how much tax you owe, making it easier to prepare for your bill.

Actions you need to take

Going from one yearly submission to four submissions, an EOPS, and a Final Declaration might seem overwhelming. But the quarterly system means you won't have to scramble to get everything in order by the end of the tax year. With less information to submit, creating each update for HMRC is quicker. Making it easier for you to get your tax right.

Here are some ways you can make the transition to MTD for ITSA even smoother:

1. Get **MTD-compatible software** in place so you can sign up ahead of the deadline and start digital record keeping now. Cloud-based software helps you create accurate quarterly updates, EOPS, and Final Declarations.

2. Talk to your **accountant or bookkeeper** about MTD. It's never too early to get processes and systems in place to help you stay on top of your accounts.

3. Block out some time to **do your accounting regularly.** One of the benefits of using quarterly updates instead of a single yearly return is that you don't need to compile as much information in one go. But it does mean you need to keep your accounts up to date.

Get ahead of MTD for ITSA

Transitioning to Making Tax Digital might feel daunting for landlords, particularly those who haven't used accounting software before. But it also provides an opportunity to simplify some typical day to day admin.

For example, you can easily log expenses by snapping receipts on the go, and track your cashflow in real time by connecting your bank account and importing transactions automatically. Instead of checking lots of different apps and platforms, you can store all of your financial information in one place. You'll never need to worry about a missing receipt again.

Adding a new process or piece of technology to your business takes time, which is why it's so important to find software that suits your accounting needs. Keeping digital records and submitting updates through cloud-based software is crucial for compliance, so the earlier you can get this in place the more time you'll have to get used to it.

Another route you can take towards preparing for MTD is signing up to the MTD for ITSA pilot. This gives you even more time to get used to Making Tax Digital rules. Check the criteria for signing up **here** and speak to your accountant or software provider.

How software can support you with more than MTD

MTD rules will be mandatory for landlords earning over £10,000 from April 2024, and you won't be able to go back to the old system except in certain circumstances. Start exploring software solutions today, and you can use the additional months before the deadline to familiarise yourself with the new system.

Cloud-based software like Xero can do so much more for you than just helping you comply with MTD rules. The following features are inbuilt with Xero, and provide a helping hand for landlords looking to minimise their day to day admin:

Cloud file storage and receipt capture
- Let the cloud do the heavy lifting, so you can say goodbye to boxes full of receipts.

Bank connections
- See how your finances are doing at a glance, with a real-time dashboard.

Online payments
- Streamline your rent collection process. Accept online payments via Stripe and GoCardless and automate follow-ups for late payments.

Pay bills
- Decorating? Repairs? Pay your bills directly from Xero and know what you owe at a glance.

How software can support you with more than MTD

Xero users are already reaping the rewards of cloud-based software. A recent survey run by Xero found that:

✳ **86% agreed that Xero makes their life easier***

✳ **78% feel more in control of their business finances with Xero***

The best part is that you can carry on using your favourite tools and apps as usual. Xero already integrates with popular property apps such as Re-leased, Arthur, Rentancy, and Dwellent. Plus, we'll be adding plenty more app integrations between now and the MTD for ITSA deadline.

*based on a survey run by Xero in the UK in August 2021 of 704 Xero subscribers.
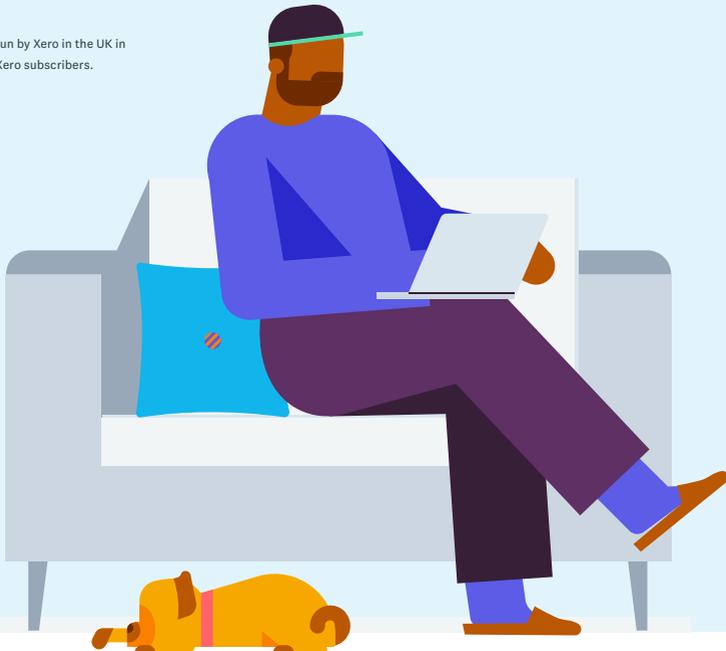
Find an accountant to support you with MTD

If you'd like to bring the admin down a notch, our directory is full of top-class accountants who specialise in working with landlords and can help you brave the change.

With the right software and some expert guidance, MTD for ITSA will help you get a clearer picture of your finances.

Sign up for a free Xero trial or **find an accountant with landlords expertise** to support you with the transition to MTD for ITSA (just click 'Real estate and hiring services' on the directory).

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