



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 2024 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 Quickbooks or Xero.

MTD is being extended to cover Income Tax and landlords with property income above a minimum level will be required to store records digitally, provide quarterly submissions in addition to the submission of an end of period report.

It is likely that separate reports will be required for each type of property business, not each property separately. (E.g. holiday lets, long term lets, overseas property).

WHEN IS IT BEING INTRODUCED FOR LANDLORDS AND PROPERTY BUSINESSES?

Landlords with a gross income of more than £10,000 a year from property will have to move to the new system by April 6 2024.

You should be prepared well before your required switch date to avoid any issues or penalties.

ARE THERE ANY EXEMPTIONS TO THE SCHEME?

Landlords and other businesses earning less than £10,000 a year from property currently do not need to sign up to the MTD scheme if they do not wish to, this also applies to landlords who accept lodgers under the Rent A Room scheme.

The scheme will be available for them to use if they wish to do so and there is also a possibility those currently exempt due to earnings will have to sign up in the future.

Other potential exemptions include:

- Those who cannot file digitally due to being a remote location
- If age, disability or other reasons prevent you from being able to interact digitally
- If religious beliefs prevent the use of electronic communications



INCOME TAX AND NICS

The most significant change for landlords will be that they will have to report property business profits quarterly. These quarterly reports must be submitted within one month of the end of the quarter, along with an end of period statement that comprises tax information for the tax year by the 31 January following the tax year or by the time the tax return for that year is submitted (if earlier).

Self-employed individuals will still have to submit a self-assessment tax return for any non-business income. However, the legislation permits HMRC to introduce a facility to report this income as part of the end of period statement. The purpose of this will be so that the above will replace the annual tax return.

Records will have to be kept in an electronic format for all who enter the scheme. Most data on income and expenditure will also have to be held electronically and categorised. Any tax adjustments will be estimated by using the software automation.

There has also been indication from HMRC that invoices and receipts will not have to be held electronically. The hope is that the information will automatically feed into the quarterly submissions. The more complex tax adjustments can be left until the end of period statement (the fifth statement of the tax year).

As mentioned earlier, the details of income and expenditure will most likely only need to be reported for the property business as a whole, not for each property separately.

CALCULATION OF TAXABLE PROFITS

Profits of unincorporated property businesses are calculated on a cash basis, provided that rental receipts do not exceed £150,000.

These businesses will be required to recognise income and expenditure in the period in which amounts are received and paid. Excluded from the cash basis are partnerships with corporate members or any type of LLPs.

Alternatively, a taxpayer may choose to calculate their profits on an accruals basis. Under this basis, income would be recognised in the period in which it is earned and expenditure is brought into account in the period in which the liability is incurred.

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Alternatively, a taxpayer may choose to use GAAP and calculate their profits on an accruals basis. Under this basis, income would be recognised in the period in which it is earned and expenditure is brought into account in the period in which the liability is incurred.

WHAT SOFTWARE CAN BE USED?

It is a requirement that the software used is MTD compatible. We would recommend using: Quickbooks, Sage, Xero or Free Agent.

FreeAgent have a specific solution for landlords, it is built specifically for individuals who earn income from property and who:

- do not treat their property rentals as limited companies for tax purposes
- earn income from up to five properties
- earn a combined property/self-employed business income of at least £10,000 a year

Landlords who currently use property management software or cloud accounting software should check that this will be updated as MTD compliant in time for when they need to start preparing for the new measure.

Alternatively please contact your local Moore office for guidance on which software will best suit your business.

WHAT ARE THE DEADLINES AND PENALTIES?

Landlords and property companies will have up to a month after the end of every quarter to send in their MTD information.

A signed declaration that the submitted filings are correct by January 31 following the end of the tax year that the return accounts to.

MTD SECURITY AND STORAGE

Your personal and business tax information will be stored on a secure government portal in a digital tax account which you will be able to access.

If you use an accountant they will be able to access the digital tax account but not all of the data.

- Details in your digital account should include, Rent received per month, invoice dates, expenses and percentage offset for personal use.
- You should scan and store receipts and invoices
- Keep information up to six years from the date the tax return was filed



HOW MOORE CAN HELP

At Moore, our experienced tax team have already assisted the first wave of clients for Making Tax Digital for VAT.

Across the UK, we have a wealth of knowledge in all of the leading cloud accounting platforms like Quickbooks and Xero and our team are able to assist you in finding a solution that is best suited to your business.

We can provide VAT technical health checks, by reviewing your current VAT management and process and we are able to find errors and suggest improvements.

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