MAKING TAX DIGITAL
THE IMPACT ON LANDLORDS

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Making Tax Digital A Summary

Key Points

Making Tax Digital (MTD) is the government's initiative to implement a fully digital tax system in the UK. The aim of the initiative is to make tax administration more efficient and easier for taxpayers through the implementation of a fully digital tax system. BASICALLY COLLECT MORE TAX

A phased rollout of MTD is already under way and the initiative is currently split into three areas:

- **Making Tax Digital for VAT** requires all VAT-registered businesses to keep digital records and use MTD-compatible software to submit their VAT returns electronically. THIS STARTED 01 APRIL 2019
- **MTD for Income Tax**, also known as MTD for Income Tax Self Assessment (MTD for ITSA), will replace the current system of ***annual Self Assessment tax returns***. For landlords and self-employed business owners, MTD for Income Tax will come into effect in **April 2024.** Partnerships with individual partners will be required to follow the rules from **April 2025**.
- **MTD for Corporation Tax** is expected to be the next stage in the initiative. ***HMRC*** has advised that 2026 is the earliest it might come into effect.

Why MTD

- Digital communications are cheaper for HMRC to process and transmit than those made by telephone or post, as digital services can be largely automated. It is also easier to automate penalties for late or incomplete digital submissions than for paper returns.
- The MTD regulations require each business to submit updates, at least quarterly, of its income and expenses, to prove that it is keeping timely business records. HMRC believes that when transactions are recorded at or near the time the transaction occurred, businesses make fewer mistakes of omission or duplication. It also argues that when transactions are recorded digitally and the data is transferred to MTD-compatible software with no re-typing or copying by humans, any errors introduced during the accounts preparation process are minimised.
- HMRC firmly believes that the combination of the use of digital record keeping and quarterly reporting of accounting figures transmitted straight from the digital records will improve the accuracy of business accounts. HMRC also thinks that this will increase the tax payable, on the basis that businesses tend to make mistakes in their own favour rather than to their detriment.

Which landlords will be affected by MTD for Income Tax?

MTD for Income Tax rules will apply to all landlords whose combined property and/or business income is £10,000 or more a year. For these landlords, MTD for Income Tax will replace the current process of completing an annual Self Assessment tax return. (Landlords who earn a combined business and/or property income of between £1,000 and £10,000 a year will need to continue filing annual tax returns through the Self Assessment process.)

If you're a landlord and your combined property and/or business income is £10,000 or more per year, you will have to follow MTD for Income Tax rules from 6th April 2024.

Under these rules, HMRC will require you to use software to:

- **keep digital records** of your property and/or business income and expenses
- **send quarterly updates** of your property and/or business income and expenses to HMRC
- **finalise your property and/or business income** by submitting an end of period statement (EOPS) and final declaration to HMRC

What are digital records?

Under MTD, businesses and landlords must record and maintain their business transactions as 'digital records'. This is understood to be any electronic format, including a spreadsheet, an accounting software package or a combination of compatible software tools (which may include both spreadsheets and accounting software): see examples 2 and 3.

Once the transactions have been recorded digitally, any further transfer of that data to other software packages must be via **digital links** and not by the use of manual copying, cutting and pasting or retyping

What is a digital link?
This is an electronic or digital transfer of data between software programs, products or applications. A connection is created between the digital records and the software, or between various software packages, or between different cells within a single spreadsheet.

The digital link does not have to be an automated link, but the activity must transfer the data directly with no manual alterations made to individual entries. You cannot use a flat entry system.

All of the following are examples of digital links:
emailing a spreadsheet containing digital records to a tax agent who imports the data into their software to carry out a calculation;
transferring a set of digital records onto a portable device (e.g. memory stick) and physically giving this to a tax agent to import that data into their software;

- XML, CSV import and export;
- download or upload of files to/from cloud-based software;
- automated data transfer;

API transfer (NB API is Application Programming Interface, which is a software intermediary that allows two applications to talk to each other).

Keeping digital records

So FROM 06 APRIL 2024 and we would suggest you set this up before this

After 6th April 2024, landlords affected by MTD for Income Tax will need to use compatible software to keep a digital record of all their property income and expenses.

If you're a landlord and you're also a self-employed business owner, Making Tax Digital legislation will require you to keep digital records of your business income and expenses separately.

We have recommended to all our clients that they keep a separate bank account into which and from which all rental income and property expenses are paid. This will limit HMRC access to private expenditure.

Sending quarterly updates

Under the new rules, affected landlords will need to send a summary of their business income and expenses to HMRC **every three months** using compatible software.

The deadlines for submitting quarterly updates will be the same for everyone who has to follow MTD for Income Tax rules. From 6th April each year from 2024 onwards, these deadlines will be:

- 5th August
- 5th November
- 5th February
- 5th May

What must be recorded?

The following information must be recorded digitally for each business transaction:

- date
- amount
- relevant category of income or expense.

The categories of income and expenses that will need to be recorded for MTD ITSA are exactly the same as currently required for the annual self-assessment tax return. However, those totals of income and expenses must be submitted to HMRC every quarter, instead of annually some months after the end of the tax year.

This means that Gross rental income must be reported so if you are using an agent to manage your properties then you will need to ensure that they provide a detailed statement on a quarterly basis of Gross Rents and a detailed report of all expenses.

Example of Rental Income Statement

Rental income of Over £85000 per annum

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

Expenses

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

Where a landlord has rental income of less than £85000 per year the tax payer is permitted to record only two totals each quarter

Gross Rental Income

All property expenses

BUT

It is likely that HMRC will require a more detailed submission as part of the End of Period Statement and Finalisation of the Tax Year submissions.

Finalising your income

At the end of the tax year, landlords affected by MTD for Income Tax will need to finalise their property and/or business income by submitting:

- an end of period statement (EOPS) for each source of property or business income
- a final declaration (which will replace the annual Self Assessment tax return)

The process of submitting an EOPS and final declaration for each source of property or business income allows you to confirm that the updates you've sent to HMRC throughout the tax year are correct. It also gives you an opportunity to add details about any relevant personal income or tax reliefs you received during the tax year, and to make other necessary adjustments.

For each tax year, you'll be required to submit your required end of period statements and your final declaration by 31st January of the following tax year. You'll also be required to pay the tax you owe in relation to each tax year on this date.

So What must you do……..

1) Ensure that you have software compatible with MTD for Income Tax and ensure that the MTD functionality in this software has been activated – so speak to your software vendor ahead of time. OR ……. Find an agent/accountant who can provide this service for you.
2) You (or your accountant) must register (you) for MTD for Income Tax BEFORE 6th April 2024. Please note that if you're already registered for Self Assessment or have already registered for MTD for VAT…… but this will NOT be transferred automatically
3) You'll no longer need to send a Self Assessment return for income tax *(although one might still be needed in some cases in order to report other kinds of income outside the scope of MTD for Income Tax. This will be submitted in addition to fulfilling your requirements that arise from MTD for Income Tax).*
4) You must provide HMRC with **quarterly updates** using software. You can send more than quarterly updates if it helps your situation. *There's no legal requirement for the updates to be accurate, but doing so will help you see your predicted tax and National Insurance liability. (THIS IS INSANE)*
5) By 31 January following the end of the tax year, you must use software to provide HMRC with an **end of period statement (EOPS)**. This will detail your property income and allowable expenses. If you own a sole trader business (or businesses) then you'll also need to submit an EOPS **for each**. These should follow the end of the accounting period for that business, but be submitted by 31 January at the latest. (In fact, this should be done well in advance of 31 January, as this is also the deadline for paying any tax and NI due).
6) By 31 January following the end of the tax year, you must use software to provide HMRC with a **final declaration of all your income**. If you have any income from a sole trader business then this will need to be included too. (Again, this should be done well in advance of 31 January, due to the deadline for paying any tax and NI due).
7) By 31 January, you'll need to **pay the balance of any tax and National Insurance contributions due**. Note that the payment on account system will continue, so you may need to make a further payment on 31 July of the same year.

There's no real change to the kind of information you'll need to provide compared to completing a Self Assessment tax return.
For example, you'll still need to declare your income, and where it came from. You'll still need to declare your allowable expenses.
The difference is that you'll need to provide this information to HMRC more frequently (at least quarterly), and you'll need to do so through software.

Whilst you might be able to join the MTD for Income Tax pilot, you can't currently sign up to the full MTD for Income Tax scheme.
It's anticipated HMRC will open the portal to sign up to MTD for Income Tax closer to the 6 April 2024 mandation date.

MTD applies to all rental properties including: Furnished Holiday Lettings; non UK properties; commercial lets; flats and apartments…… no distinction is made for the type of property nor whether it is furnished or not.

HOWEVER If your properties are owned by a limited company you set up for the purpose, then MTD for Income Tax will not apply.

PENALTIES FOR NON-COMPLIANCE

A new penalty regime to encourage taxpayers to file their MTD reports on time will apply for VAT periods starting on and after 1 January 2023, and for filings under MTD ITSA from 6 April 2024.

Instead of receiving an immediate penalty for filing a report late, the taxpayer is issued a point. When the taxpayer has accrued sufficient points for late reports, a financial penalty of £200 is imposed. Every late submission after that threshold has been breached will trigger another £200 fine, but those additional penalties will not add points to the points slate.

The points thresholds depend on the submission frequency of the required reports, as does the 'period of compliance' (explained below).

Submission frequency	Penalty threshold	Period of compliance
Annual	2 points	24 months
Quarterly	4 points	12 months
Monthly	5 points	6 months

The taxpayer will accrue separate penalty totals for MTD VAT and MTD ITSA, which do not affect each other, but they are based on the same rules. The points slate can only be wiped clean when the taxpayer achieves both:

- no late submissions for a period of compliance; and
- all returns filed for the previous 24 months, even if they have been filed late.

The period of compliance varies with the submission frequency of the return as shown in the table above. All points and penalties can be appealed.

Welcome to 1984

WHY ACCOUNTANTS ARE SO CONCERNED POSSIBLE SUBMISSION EXTREMES

An interesting example

- Rishi and Nicola jointly let a property for £12000 per year.
- *Rishi's consulting business is VAT-registered and the accounts are made up to 31 March; his VAT quarters also run to the calendar quarter. Rishi elects to submit updates for calendar quarters under MTD ITSA.*
- ***Nicola does not have to submit quarterly reports for her share of the property income (£6,000 per year), as that income is under the £10,000 threshold for reporting under the MTD ITSA regime.***
- ***From 1 January 2024 to 31 January 2026, Rishi will have to submit the following reports and confirmation statements under MTD VAT, MTD ITSA and self-assessment.***

Reporting under	Tax Year	Reporting for period:	Deadline:
Self-assessment	2022/23	6 April 2022 - 5 April 2023	**31 January 2024**
MTD VAT	2023/24	Q3:1 Oct – 31 Dec 2023	**7 February 2024**
MTD VAT	2023/24	Q4:1 Jan – 31 March 2024	**7 May 2024**
MTD ITSA trade	2024/25	Q1: 6 April – 30 June 2024	**5 August 2024**
MTD ITSA property	2024/25	Q1: 6 April – 5 July 2024	**5 August 2024**
MTD VAT	2024/25	Q1: 1 April – 30 June 2024	**7 August 2024**
MTD ITSA trade	2024/25	Q2: 1 July – 30 Sept 2024	**5 November 2024**
MTD ITSA property	2024/25	Q2: 6 July – 5 Oct 2024	**5 November 2024**
MTD VAT	2024/25	Q2: 1 July – 30 Sept 2024	**7 November 2024**
Self assessment	2023/24	6 April 2023 – 5 April 2024	**31 January 2025**
MTD ITSA trade	2024/25	Q3: 1 Oct 2024 – 31 Dec 2025	**5 February 2025**
MTD ITSA property	2024/25	Q3: 6 Oct 2024 – 5 Jan 2025	**5 February 2025**
MTD VAT	2024/25	Q3: 1 Oct 24 – 31 Dec 2024	**7 February 2025**
MTD ITSA trade	2024/25	Q4: 1 Jan– 31 March 2025	**5 May 2025**
MTD ITSA property	2024/25	Q4: 6 Jan– 5 April 2025	**5 May 2025**
MTD VAT	2024/25	Q4: 1 Jan 25 – 31 March 2025	**7 May 2025**
MTD ITSA trade	2025/26	Q1:1 April 2025 – 30 June 2025	**5 August 2025**
MTD ITSA property	2025/26	Q1: 6 April 2025 – 5 July 2025	**5 August 2025**
MTD VAT	2025/26	Q1: 1 April 25 – 30 June 2025	**7 August 2025**
MTD ITSA trade	2025/26	1 July 2025 – 30 September 2025	**5 November 2025**
MTD ITSA property	2025/26	6 July 2025 – 5 Oct 2025	**5 November 2025**
MTD VAT	2025/26	Q2: 1 July 25 – 30 Sept 2025	**7 November 2025**
MTD ITSA trade	2024/25	EOPS: 5 April 2024 – 6 April 2025	**31 January 2026**
MTD ITSA property	2024/25	EOPS: 5 April 2024 – 6 April 2025	**31 January 2026**
MTD ITSA 2024/25	**2024/25**	**Finalisation: 6 April 2024 – 5 April 2025**	**31 January 2026**

Who is Exempt from MTD ITSA

Who is exempt from MTD ITSA?

The following individuals are not required to report under MTD ITSA in respect of their qualifying income:

Personal representatives of deceased persons

- Trustees, but beneficiaries of interest in possession trusts (in Scotland, liferent trusts)
- may need to report
- Trustees of charitable trusts.
- Trustees of non-registered pension schemes
- Lloyd's underwriters – but only for their underwriting business

- In addition, taxpayers who are digitally excluded will be able to ask HMRC to grant an exemption from MTD ITSA if either of these conditions apply:

  A) It is not practical for the individual to use software to keep digital records or submit them to HMRC; or

  B)The individual is a practising member of a religious society, the beliefs of which are incompatible with using electronic communications or keeping electronic records.
- Condition A can apply due to the taxpayer's age, disability, location or another reason (as discussed earlier).