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Update

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Making Tax Digital for landlords

What is Making Tax Digital and how will it affect me?

Affecting the self-employed, partnerships and landlords initially, Making Tax Digital (MTD) is the Government's plan to migrate the current tax system to a fully digitised online tax system by the end of 2020.

The Government has outlined a timetable which illustrates how they set out to achieve this by 2020 and it is envisioned that everyone will be affected, resulting in the death of the tax return as we know it.

At the moment, landlords keep their accounting records in a variety of ways, from paper records, spreadsheets or accounting software. These records are then used to prepare a tax return for the property business at a later date. The Government are now proposing, with Making Tax Digital, unincorporated property businesses will be required to:

- Maintain their records digitally, through software or apps
- Report summary information to HMRC quarterly through their 'digital tax accounts'
- Make an end of year declaration through their digital tax accounts

What is a digital tax account?

Digital tax accounts are like online bank accounts. They are secure areas where a business can see all of their tax details in one place and interact with HMRC digitally.

"Digital records can be maintained using software which will be available from third party software providers. HMRC have confirmed there will be some products which are free of charge."

Will making tax digital apply to me?

In the Spring Budget, the Government announced its proposed timetable for the introduction of making tax digital, including the various thresholds, which can be seen in the table below:

Unincorporated property businesses with an annual turnover above the £85,000 VAT threshold	6 April 2018
Unincorporated property businesses with an annual turnover at or below the £85,000 VAT threshold but above 10,000	6 April 2019
Businesses with an annual turnover of less than £10,000	Exempt

What are digital records?

A digital record is a record of data for each transaction of the business. The proposed minimum required data will be:

- Date rentals due and payment received date if using cash basis of accounting
- Rental value
- Invoice date and value for expenses
- expense category
- deducted amount/percentage for expenses

Digital records can be maintained using software which will be available from third party software providers. HMRC have confirmed there will be some products which are free of charge.

Transactions

Allowable and non-allowable expenses

Tax legislation contains a variety of rules on allowable and non-allowable expenses. So transactions will need to be categorised into expense types using your chosen software, for example you might separate advertising and professional expenses.

Multiple properties
Where multiple properties are held within a property business, income and expenditure only has to be recorded for the property business as a whole and does not have to be allocated to individual properties. There will however, be a requirement to maintain details of each property's address in the digital records.

Storing digital records

The software will either store the records locally, for example on a computer, or in the cloud. HMRC expect that the software will, after an initial phase of manually assigning transactions to expense categories, start to recognise regular items and automatically assign them.

Under the original proposals, HMRC envisaged that a digital record would include not only a record of each item of income and expense but also evidence of each transaction such as copies of invoices and receipts. In the revised proposals the requirement to keep digital records will not include an obligation to store images of invoices and receipts digitally. HMRC are aware that a lot of property businesses use spreadsheets to currently record their data and have now confirmed that spreadsheets will be one of the options for maintaining digital records. But users will need to ensure that the spreadsheet is able to meet all the necessary requirements of making tax digital (i.e. not just keeping a record of each transaction but also providing quarterly summary updates and end of year information).

Businesses will need to use software appropriate to their business requirements. For example, a property partnership will need software that can record the partners' details and profit shares.

> "Throughout the year, HMRC expect landlords to provide them with regular updates, building a picture of their net income for the year."

How will the quarterly return work?

You will be expected to compile all the relevant data into your chosen software each quarter, and once this is done you will then be expected to feed this data directly into HMRC systems. The information that will be sent to HMRC will be summary data for the quarter, not all income and expense items. It is envisaged that the analysis of the data will be similar to the existing categories in the self assessment tax return. Smaller property businesses will be able to prepare an update that contains only three lines of data – income, expenses and profit.

If your property business already completes a VAT return a single return covering VAT and making tax digital may be done.

When the quarterly update is due, landlords will have one month to compile their records and complete the update.

What is an end of year declaration and what do I need to do?

Throughout the year, HMRC expect landlords to provide them with regular updates, building a picture of their net income for the year. However, many businesses will need to make adjustments to that information, for example reconsidering which expenses are not allowable for tax. You will then make a declaration that everything is complete and correct as regards your property business - an end of year declaration. You will have until 31 January following the tax year to complete the end of year declaration.

Changes to accounting basis

Alongside the changes being brought in by making tax digital, there are also proposed amendments to the way that unincorporated property businesses account for their property income. These proposals will make cash basis accounting the default option for smaller unincorporated property businesses unless they elect to use the accruals basis.

The cash basis means the business accounts for income and expenses when the income is received and expenses are paid. The accruals basis means accounting for income over the period to which it relates and accounting for expenses in the period in which the liability is incurred.

These changes are due to start from 6 April 2017, although a decision as to whether to use the new cash basis or maintain the existing accruals basis does not have to be made until the 2017/18 tax return is submitted.

Properties owned by a partnership or owned jointly

The principles of the proposed system for partners and partnerships are as follows:

- The partnership, rather than each partner, will be responsible for the central requirements of making tax digital (keeping a record of each transaction, providing quarterly summary updates and end of year information)
- A nominated partner will fulfil these obligations
- There will be an option for the nominated partner to push quarterly summary information of their share of the profit to each partner's digital tax account. Each partner under this option would therefore have an estimate of their profit to date in the tax year
- When the end of year declaration is made, the nominated partner will be obliged to push each partner's share of profits to their digital tax accounts

The above rules applying to partnerships would not apply to property that is jointly held. In this situation each individual who received income from jointly held property would report that income separately.

Under current proposals a business with a 31 March year end rather than a 5 April year end has almost 12 more months before it has to meet the digital records requirements.

If you would like further information on any item within this brochure, or information on our services please contact your usual Moore Stephens adviser.


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