



# MOORE

Business Tax

## MAKING TAX DIGITAL FOR LANDLORDS

The Making Tax Digital (MTD) flagship scheme is the Government's transformation of the UK tax system. The Government hopes this initiative will bring UK taxation into the digital age by automating and streamlining certain processes.

### WHAT DOES MTD REQUIRE?

The MTD system is a Government proposed system which requires businesses and corporations to store their VAT records digitally and submit their VAT returns through a HMRC recognised MTD software such as Quickbooks or Xero.

Property businesses will be required to store records digitally and make quarterly submissions in addition to the submission of an end period statement.

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?

The scheme is being phased in stages, it started with companies and incorporated landlords with an income above £85,000 having to submit their quarterly VAT tax return online.

As of April 2022, all eligible VAT-registered businesses and unincorporated landlords with a taxable turnover below £85,000 will have to oblige to the new system.



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

Your business 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 MTD rules will apply to persons within the charge to income tax who carry on:

- A trade, profession or vocation
- A property business
- Other activities which fall within the charge to income tax

Exempt from the rules will be those such as trustees of charitable trusts as well as certain activities. Although both sets can opt-in to oblige to the scheme.

The most significant change for landlords and other property businesses 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. Certain exclusions from the cash basis are partnerships with corporate members or any type of LLPs.

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.

## PARTNERSHIPS

Partnerships (including entities taxed on a similar basis, e.g. LLPs) will still be covered by MTD, however some of the rules are different compared to the ones for individuals.

The rules will not apply to the individual partners. Partnerships will have the option to “push” tax data into each partner’s digital tax account on an annual basis. This will mean partners will no longer need to submit a partnership page in preparing their own self assessment tax return and will not need to comply with MTD provided they have no other business interests.

Unlike for individuals, all income will be reportable under MTD for partnerships, this includes non business income such as interest.

However, like individuals, partnerships will be required to report quarterly. The partnership will have to file partnership returns electronically instead of filing end of period statements.

The above rules will only apply to partnerships and will not apply to jointly held property. For jointly held property, each taxpayer will be held individually responsible for reporting income and expenditure in respect of their share in the property.

## VAT

VAT reporting for a property business depends in broad terms, if the property is residential or commercial, as well as if there is an “option to tax” in place.

Should the business be required to report VAT they will need to continue accounting for VAT quarterly.

The expectation is that updates submitted for income tax and NIC purposes will eventually be included in these quarterly updates. There is confirmation that the current approach to calculating a businesses VAT liability will remain the same and will not be affected by MTD.

When businesses first start using the MTD scheme they might find that they have different VAT return and quarterly update cycles, they will have the option to align these dates so that their quarterly submissions can be made at the same time for both direct taxes and VAT.

The VAT aspects of quarterly submissions will lead to a VAT return and therefore an additional declaration will be required. If the Annual Accounting Scheme is used, quarterly reports will still be required, but a declaration will only be required on an annual basis. VAT processes performed by businesses at the end of each year will not change.

When selecting software, VAT-registered businesses should be conscious that it will need to be able to cope with VAT Accounting as well as calculating profits for income tax and NIC purposes (and corporation tax where applicable).

HMRC anticipates that transactions will only need to be recorded once in the software but that it can be used for all purposes.

## Corporation Tax

Corporate structures will be able to hold properties. Although MTD will apply to companies, it will have different rules compared to individuals and partnerships.

Elements include:

- All those affected by corporation tax will need to maintain their records digitally
- Companies will have to use MTD compatible software to provide quarterly summary updates of income and expenditure
- They have to submit their annual Corporation Tax return using MTD compatible software.

## 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

## WHAT SOFTWARE CAN BE USED?

HMRC have currently approved seven software providers which are ready, with others still in development and waiting to be improved.

You can find the list here.

Landlords and property businesses 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 (South) office for guidance on which software will best suit your business.

## HOW MOORE UK CAN HELP

At Moore UK, 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.