Making Tax Digital for Landlords

By Jennifer Adams

LandlordVision

Contents

Making Tax Digital for Landlords

First published January 2019;

Second edition published August 2019;

Third edition published April 2020;

Fourth edition published April 2021;

Fifth edition published January 2022.

The right of Jennifer Adams and Landlord Vision to be identified as the authors of this report.

About This Report

Making Tax Digital is the Government's plan to move to a fully digital tax system. The stated aim is to make tax administration more effective, efficient, and easier for taxpayers to fulfil their obligations whilst reducing HMRC’s overheads for managing the tax system.

This report sets out to clarify what can be expected for and of landlords once the system has been implemented, detailing the practicalities involved with the submission of data and the penalties for non-compliance.

What is Making Tax Digital?

'Making tax digital' (MTD) has been described as one of the most significant changes to be made to the UK tax system for generations. As from 6 April 2024 it will apply to all self-employed, partnerships and landlords (including trusts which receive income from property) whose combined gross income from those sources exceeds £10,000.

The two key requirements for MTD are to:

- Keep transaction records via a 'digital link' and
- Use compatible software to submit returns to HMRC

HMRC is looking for 'transparency' between the business's underlying accounting records and tax returns; this, HMRC believes, will reduce the risk of tax error, making compliance and enforcement more efficient.

Under the MTD system, taxpayers will no longer submit returns by totalling figures manually, completing the return by hand and sending to HMRC by post or by loading directly onto the taxpayers' own Government Gateway account and submitting online. Instead, transactions will have to be recorded digitally and the detail submitted using specific MTD compatible software. The software will electronically link bookkeeping records into HMRC's MTD computers.

HMRC will not be providing software to enable submissions and as such landlords will be compelled to use commercially produced software to submit. Spreadsheets will still be permitted and if used, the initial input of data will be keyed in manually but then any further transfer, recapture or modification of that same data is to be by special software (termed 'bridging' software). That same software will submit the information to

HMRC directly. That means that special software will need to be purchased whether spreadsheets are the chosen option or not.

Which Landlords Will be Affected?

All landlords will have no choice but to comply except those with less than £10,000 annual income. Certain exemptions may also be possible for those taxpayers who are 'digitally excluded' – defined as those who are unable to use computer software du to their religion, age or disability. There is also likely to be an exemption for those affected by low internet speeds (under 2 mb/s).

The £10,000 income figure is the income from all properties and not the profit figure. For landlords who are both self-employed and receive rental income the amount is of all sources of such income combined. Income from employment will not count.

What Will Stay the Same?

No changes are being made to:

- the underlying tax rules;
- the level of detail of information and headings which will remain the same as the current self-assessment tax return, or
- the current payment deadlines for income tax.

However, there will be changes to the number of returns (termed 'updates') to be submitted and the submission dates.

Submission Dates

The annual tax return submitted every year by 31 January is to be abolished and instead taxpayers will be required to submit 'updates' every quarter (or more frequently if the taxpayer so wishes). The 'time window' for submission will be from 10 days before the quarter end to precisely one month from the end of each quarter (which contrasts with the one month and seven days after the end of the quarter for VAT currently in place for example).

An 'end of period statement' will also be required by 31 January after the year end confirming the previous submissions' data, including claims such as the restriction of mortgage interest, (if such information has not already been included in the 'updates') and other taxable income (e.g. investment and employment income). Finally, there will be a 'Finalisation statement' pulling all 'updates' together to calculate the final tax due.

See **Timetable for 2024/25 and 2025/26** at the end of this guide.

Different Sources of Income

MTD regulations state that individual landlords must submit separate quarterly 'updates' for each property business category (i.e. separate 'updates' for lettings, furnished holiday lets and overseas lets). Therefore, the minimum number of submissions for landlords will be five per tax year but depending upon the taxpayers' type and level of income there could be as many as 20 as the example shows.

Example

Julian is a self-employed VAT registered builder whose year-end is 30 April. He is registered for VAT and submits his VAT returns for the quarters to the end of April, July, October, and January. He is also a landlord with two residential properties, one being furnished holiday accommodation.

Julian will need to submit:

- A quarterly MTD 'update' for each of his two property businesses (8)
- A quarterly MTD 'update' for his building trade, (4)
- An 'End of period statement' for each of those three businesses, (3)
- Four VAT returns (4)

and

- A finalisation statement (1)

– a total of **20 reports** for each tax year.

Real Time Basis

All property businesses must use the tax year as the accounting basis period, but trades can use any accounting period. When an 'update' is submitted, HMRC's computer will calculate the taxpayer's potential tax bill as close to 'real time' as possible and at the same time remind (termed 'prompt') the taxpayer as to the dates of payment - the idea being that this will aid taxpayers to pay the correct amount of tax, putting a stop to underpayments or overpayments.

The system will enable taxpayers to view and manage their tax information in one place via an online digital account similar to how accounts are viewed on a bank screen online. The intention is for each taxpayer to view their current ('real time') tax liabilities whichever type of tax is paid in one place via the Government Gateway and eventually have the ability to enable offset of overpayments in one tax against underpayments in others.

When is MTD Starting?

Stage 1

MTD has already begun, being introduced in stages. As from 6 April 2022 all VAT registered businesses, whether compulsorily registered or not are required to retain digital records and submit their VAT returns to HMRC using digital software (unless exempted) including those furnished holiday let businesses so registered.

Stages 2 and 3

The second 'roll out' stage will be MTD for income tax of the self-employed and landlords (April 2024). The third and final stage will be MTD for corporation tax when all non VAT registered companies will be expected to comply (April 2026).

The timetable for MTD for income tax has been amended and delayed not least due to Covid. However, it has now been confirmed that (barring any problems with HMRC's systems), self-employed businesses and landlords with annual business and/or property income above £10,000 will need to join the system from the next accounting period starting on or after 6 April 2024.

Therefore, the mandated dates for MTD and will be:

- Existing property income: 6 April 2024
- Existing trading income: first accounting period starting on or after 6 April 2024
- New property business: 6 April following the start date
- New trade: start of accounting period in year three

MTD Compliance

All Landlords

Although there will be no requirement to submit actual invoices or receipts, this back up information must still be kept. HMRC would like taxpayers to use software sophisticated enough to scan receipts so the details are loaded automatically into the chosen software. They believe that this method of 'capture' will reduce the need for manual loading (and as such 'mistakes') and the time incurred in creating quarterly submissions. However, such sophisticated software costs, and HMRC have backed away from insisting that this type of software be used and have confirmed the use of spreadsheets.

Submissions will be of total figures only and the headings will be the same standard expense headings already used on the Property pages of the current tax return.

Practical point

Many landlords use their personal current account to collect rents and pay expenses. It is suggested that landlords start their preparation for MTD by applying for a separate bank account so that these figures are held in one place. It need not be a business account but can be an ordinary personal current account.

Multiple Properties

Where multiple properties are held within a property business, rental income and expenditure will have to be recorded for the business as a whole rather than shown per individual property. Should information be received from third parties' summaries (e.g. from letting agents) then those figures can be entered into the software as a single invoice.

Jointly Owned Properties

Currently, each individual provides information on their own tax return detailing their share of the rental income and allowable expenses. This procedure will remain where a property is jointly owned, each individual being required to keep digital records for their share of income and expenditure.

How and When Will Tax Payments be Made?

HMRC does not currently plan to change the dates by which payments are made under MTD, remaining on 31 January and 31 July as required although a business will be permitted to make voluntary payments towards their tax liabilities. Such voluntary payments may be made at the discretion of the business and at intervals of their choosing.

However, hidden in the Budget consultation published on 23 March 2021 is a sentence which is possibly the real reason for MTD:
"The government is publishing a call for evidence to begin to explore the opportunities and challenges of more frequent payment of income tax within Income Tax Self Assessment ...based on in-year information'.

The New System of Penalties

Alongside the introduction of MTD, HMRC has announced a new penalty regime as follows:

Late Submission

- Taxpayers will receive one point for every missed submission deadline; HMRC will notify the taxpayer of each point as incurred.

- When a self assessment taxpayer is late for the fourth time a penalty of £200 will be charged for every subsequent late submission deadline (but no further points will be levied).
- Once the points have reached 12 months, the taxpayer will be required to bring all outstanding returns from the preceding 24 months up to date and achieve the period of compliance for the following 12 months for the points to be reset to zero.
- The points will be totalled separately for different submission obligations i.e. should a taxpayer be required to make both self-employed and landlord submissions the points system is separate.
- HMRC has 11 weeks to levy points after the quarterly filing deadline is missed, and 48 weeks for annual filing.

Late Payment Regime

In addition to the late submission regime as detailed in the previous paragraph, taxpayers will no longer receive an automatic penalty if they fail to meet a payment deadline, but instead will incur a point for each failure as follows:

- No penalty if the outstanding tax is paid within 15 days after the due date.
- After 15 days, a penalty of 2% of the tax outstanding will be applied.
- This increases to 4% of the tax outstanding if still unpaid 31 days after the tax was due to be paid.

First Year

For the first year of implementation HMRC will be operating a 'light touch' approach to applying the first penalty (i.e. 2% after 15 days) by allowing taxpayers 30 days to approach HMRC to ask for a 'Time to pay' arrangement. The 4% penalty will be charged on any tax still outstanding after the 30 days even if an arrangement has been made.

Simplified Cash Basis for Unincorporated Property Businesses

As part of the changes being brought in by MTD, the way that unincorporated property businesses account for property income has already changed. These changes make the 'cash basis' of accounting the default option where the receipts of that business are less than £150,000 (unless the business elects to use the 'accruals basis'). The 'accruals basis' accounts for income over the period to which it relates and for expenses in the period in which the liability is incurred.

The 'cash basis' accounts for income and expenses on the date when income is received and expenses paid. The current general disallowance of capital expenditure under the 'cash basis' is replaced by a more specific disallowance for certain assets.

Timetable for 2024/25 and 2025/26

For landlords who do not have any other self-employed or partnership income the deadlines for each submission for the first and second year of MTD are as follows:

(assuming no further delays announced by HMRC).

Update number	Quarter ended	Submission date
1st (2024/25)	5 July 2024	5 August 2024
2nd (2024/25)	5 October 2024	5 November 2024
2024 Tax return	Tax year ended 5 April 2024	31 January 2025

3rd (2024/25)	5 January 2024	5 February 2025
4th2024/25)	5 April 2025	5 May 2025
1st (2025/26)	5 July 2025	5 August 2025
2nd 2025/26)	5 October 2025	5 November 2025
Final (2024/25)	End of period & Final declaration	31 January 2026
3rd (2025/26)	5 January 2026	5 February 20266
4th (2025/26)	5 October 2026	5 November 2026
Final (2025/26)	End of period & Final Declaration	31 January 2027

Tax payment dates remain the same:

- 1st Payment on account 2024/25 31 January 2025
- 2nd Payment on account 2024/25 31 July 2025
- Balancing payment 2024/25 31 January 2026
- 1st Payment on account 2025/26 31 January 2026
- 2nd Payment on account 2025/26 31 July 2026

Final Points

HMRC hope that over time the information submitted under MTD will create a picture of a taxpayer's business, which they believe will enable more accurate comparisons with other similar businesses than are currently available. This can only mean more targeted enquiries and, as indicated above, eventually enable more regular tax payments.

April 2024 may seem a long way in the future however all landlords will be affected. As such it will be prudent for landlords to be aware of the changes taking place and implement procedures to ensure that the transition goes as smoothly as possible in the circumstances.

LandlordVision