



Brooks
Finance & Business Experts

MAKING TAX DIGITAL FOR LANDLORDS



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What do landlords need to know about Making Tax Digital?

MTD for Income Tax & Self-Assessment (MTD for ITSA) is part of the UK government's long-running plans to digitalise tax.

Doing so makes life easier for individuals and businesses who, because their records are digital, get improved visibility into their finances. This empowers better decision-making, the ability to spot problems before they arise and assists growth.

The MTD programme has already required VAT-registered businesses over the VAT threshold to use software for their VAT accounting as of April 2019 and the remainder of VAT businesses have to follow those rules from April 2022.

The next phase of the project begins in April 2024, when many individuals and the self-employed, currently using Self-Assessment, will be required to switch to using MTD for Income Tax for their income tax accounting and reporting.

This includes landlords, but only those whose rental income (not profit) from their property or properties exceeds £10,000 per year.

If a landlord is also a sole trader, then the income from the sole trader business(es) they own, plus the income from properties, is added together for the purpose of determining if that individual is required to register for MTD for Income Tax.

How do landlords work out their income for Making Tax Digital for Income Tax?

If you're just a landlord and not a sole trader, all you need to do is calculate the rental income you receive from the properties you own (or own a share of).

Is the total rental income you receive more than £10,000 per annum? If so, you need to register for and then use MTD for Income Tax for the income and expenditure relating to your property rentals.

If you're also a sole trader who uses Self-Assessment for other businesses unrelated to being a landlord, it's a little more complicated.

In this case, to work out your income for the purposes of Making Tax Digital for Income Tax, the rental income should be combined with income from any sole trader businesses you own.

If the total comes to more than £10,000, you need to register for and then use MTD for Income Tax for income and expenditure from your property rental, as well as from your business(es).

Here are some examples:

Individual A has a property that brings in **rental income of £12,000 per year**. This is **above the £10,000 threshold** so **they will need to use MTD for Income Tax** for the accounting relating to their property. Additionally, if they carry on employment as a sole trader – either now or in the future – they'll need to use MTD for Income Tax for the accounting relating to this too.

Individual B inherited a property that is **rented for £9,000 a year**. They have full-time employment and pay tax and National Insurance through their employer's payroll. Because their income from the property is **below £10,000**, they **do not need to use MTD for Income Tax**. Instead, they should continue using the Self Assessment system.

Individual C is a buy-to-let landlord with a property that brings in **£8,000 income** through rents each year. They also work as a sole trader, with an **income of £9,000** so the **aggregate income is £17,000**, which is above the £10,000 threshold. They are **required to use MTD for Income Tax**.

What do landlords need to do for Making Tax Digital for Income Tax?

For those within its scope, as described above, the rules of MTD for Income Tax are as follows:

Software compatible with MTD for Income Tax must be used to record the property income and expenses. We recommend Xero accounting software, which is the most user friendly and has various monthly pricing options.

You or your accountant must register you for MTD for Income Tax before 6 April 2024. If you're already registered for Self-Assessment or have already registered for MTD for VAT, you will not be transferred across automatically when MTD for Income Tax begins.

You'll no longer need to send a Self-Assessment return for income tax unless you need 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.

You must then provide HMRC with quarterly updates using the software. You can send updates more frequently than quarterly if this better suits your business. There's no legal requirement for the updates to be 100% accurate, but doing so will help you see your predicted tax and National Insurance liability and cause less work on your end of period statement. The submission timescales will be as follows:

Use standard quarterly period dates

The standard quarterly periods and deadlines in each tax year are:

Quarterly period	Quarterly deadline
6 April to 5 July	5 August
6 July to 5 October	5 November
6 October to 5 January	5 February
6 January to 5 April	5 May

At a later date, you'll be able to choose to use calendar quarters. We'll tell you how you can do this when it is available.

Using calendar quarterly period dates

Quarterly period	Quarterly deadline
1 April to 30 June	5 August
1 July to 30 September	5 November
1 October to 31 December	5 February
1 January to 31 March	5 May

At the end of the tax year, you must also use the 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 of these businesses. This is where you:

1. Make any accounting adjustments (which are not required in the quarterly submissions)
2. Claim any reliefs
3. Confirm that the information you've sent is correct and complete

Your software will produce these statements for you and the deadline for this is 31 January after the end of the tax year.

By 31 January following the end of the tax year, you must use software to provide HMRC with a final declaration of all your sources of income. This replaces your self-assessment tax return. If you have any income from a sole trader business then this will need to be included too.

By 31 January, you'll also need to pay the balance of any tax and National Insurance contributions due, as shown on your final declaration. 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.

Some of your questions answered:

What information do landlords need to send as part of MTD for Income Tax?

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 the software.

How do landlords sign up to MTD for Income Tax?

Although you might be able to join the MTD for Income Tax pilot, you can't currently sign up for the full MTD for Income Tax scheme. However, we recommend that you start using Xero software at least a year before the scheme starts to ensure you become familiar with the system ahead of the requirements to commence quarterly filing.

Your accountants can assist you with the transition to the software and when the time comes, can also sign you up for MTD.



I don't run a business. I simply receive rental income from a single inherited property. Does MTD for Income Tax apply to me?

Yes, if your annual rental income is above £10,000.

If you rent out a property, then HMRC now considers you to be running a business. It doesn't matter if you're employed full time doing something else and already pay taxes that way.

Your work as a landlord might be part-time, or even something that demands hardly any of your time, but the income must still be declared.

I receive income from shares in a real estate investment trust (REIT). Does MTD for Income Tax affect me?

No. As of MTD for Income Tax's launch in 2024, only rental income from property ownership will be within scope.

I'm a buy-to-let landlord. Does MTD for Income Tax affect me?

If the rental income you receive personally is more than £10,000 (or is above £10,000 when combined with sole trader income) then MTD for Income Tax applies.

If you own a buy-to-let property with your spouse or another family member, then only your relevant portion of the rental income will need to be £10,000 or above, before you have to sign up for MTD for Income Tax.

The above details assume you own all or part of the property personally.

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

Are furnished holiday lettings (FHLs) included in MTD for Income Tax?

Yes, if your rental income is above £10,000 (as mentioned above, if you're a sole trader then income from your business also contributes to this threshold).

The same special rules will continue to apply to FHLs with regard to claiming reliefs and allowances, and occupancy conditions.

Is rental income from foreign (non-UK) property I own included in MTD for Income Tax?

Yes, if your rental income is above £10,000 (as mentioned above, if you're a sole trader then income from your business also contributes to this threshold).

As with the existing Self Assessment scheme, you may be able to claim double taxation relief, if the income is also taxed in the country where your property is.

Does MTD for Income Tax apply to rental income from flats/apartments?

If the rental income is over £10,000 (or is above £10,000 when combined with sole trader income) then MTD for Income Tax applies.

No distinction is made between the different types of property.

Whether the property is furnished or unfurnished has no bearing on MTD for Income Tax either. It's solely about the rental income an individual receives and for which income tax is therefore due.

Similarly, income from commercial lets is also within the scope of MTD for Income Tax if the threshold is breached and that property is owned by an individual (or more than one person).



If I sell/dispose of a property, does the income count towards MTD for Income Tax?

No. That would typically be classed as a capital gains tax. Speak to an accountant if you're in any doubt.

I'm already registered for MTD for VAT. Do I need to register for and/or use MTD for Income Tax?

Yes, if your property income is above the £10,000 threshold (either on its own or combined with your income from sole trader businesses you own).

MTD for VAT and MTD for ITSA are independent of each other. They apply to different types of tax.

I own a share of a property and receive a share of the rental income. Does MTD for Income Tax apply?

You should consider the rental income you personally receive, rather than the total rental income from the property (or properties).

MTD for Income Tax will apply if this income is above the £10,000 threshold (either on its own or combined with your income from sole trader businesses you own).

Does the £10,000 MTD for Income Tax threshold apply to each property?

The £10,000 income threshold applies to any number of properties, as it's measured on the total personal income for which income tax might be deducted – whether that's from rental income, or income from any sole trader business(es) you own.

Is it just the rental income from property that's considered for MTD for Income Tax?

If you keep any tenancy deposit for repairs then, as currently, this will be considered income and will have to count towards the threshold rules. Whatever you spend on the repair could be considered an allowable expense against the income, but it cannot change the need to sign up to MTD.

My properties are owned by an incorporated company, from which I pay myself a salary and/or dividend. Does MTD for Income Tax apply?

No, since the properties are owned by the incorporated company, corporation tax will apply to the rental income.

If you're employed by the company, and your salary is paid through its payroll, MTD for Income Tax will not apply to your salary either

Dividends from the company should be reported and paid through the usual Self-Assessment route, as they are not within the scope of MTD for Income Tax at the present time.

If any property is disposed of, the income would be considered a chargeable gain for corporation tax purposes. It's worth noting that the government is planning a Making Tax Digital scheme for corporation tax. But this will not arrive until 2026, at the earliest.

It will be independent of both MTD for Income Tax and MTD for VAT.

Can I leave it to my accountant to handle MTD for Income Tax for my properties?

Yes and no.

You'll need to use software for your accounting relating to income tax. That can't be avoided.

Considering the admin time savings modern cloud accounting software offers, this is something that should be embraced.

However, you can still rely on an accountant to work out your quarterly updates, EOPS and final declaration each year.

An accountant will still be able to help you make any necessary adjustments and claim any reliefs.

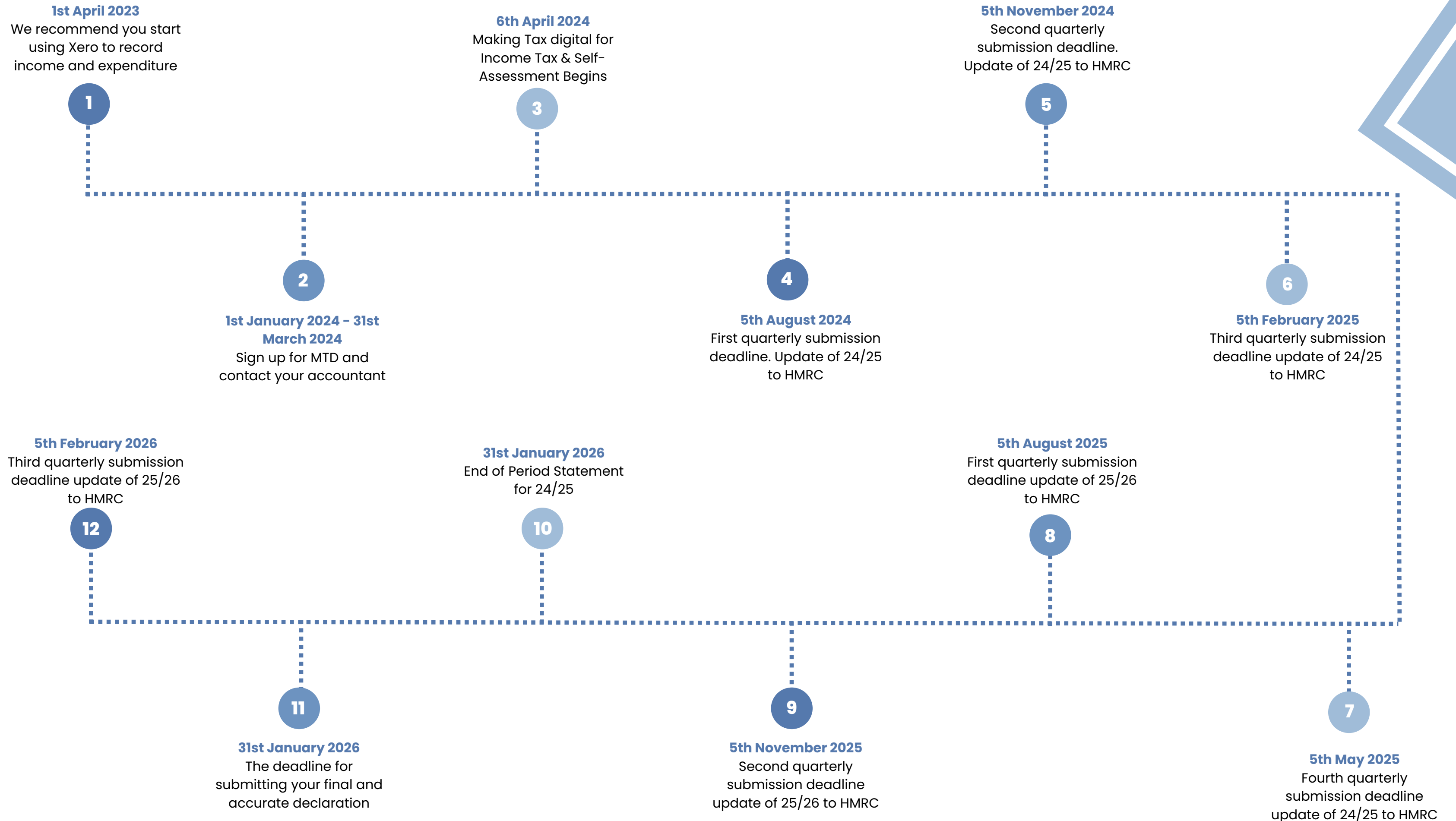
I'm new to being a landlord, having only just purchased or inherited property. When will MTD for Income Tax apply to me in April 2024?

In theory, if your property income is over £10,000 then MTD for Income Tax applies (with the sole trader proviso, as above). However, the threshold will probably be calculated based on the previous period's Self-Assessment tax return. Therefore, it's likely that those who are new landlords will first have to register for Self-Assessment and complete a first tax return.

At that point, it may become clear the £10,000 threshold has been passed, so they will then switch to using MTD for Income Tax.

As with several details relating to MTD for Income Tax, we await clarity on this point from HMRC.

Important Dates - Timeline





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