

BUSINESS AND PERSONAL TAX SUPPORT LANDLORD AND MTD CHALLENGES



From April 2024, landlords with rental income in excess of £10,000 per annum will need to submit quarterly returns of income and outgoings to HMRC using their Making Tax Digital links.

This will not apply to property owners who run their property business using a limited company until MTD covering corporation tax is implemented at the earliest, April 2026.

The challenges for landlords in meeting these new regulations are set out below.

What is MTD?

VAT registered businesses have been dealing with HMRC's Making Tax Digital (MTD) program for a few years. Now it's the turn of anybody with a trade, or property income, which together make £10,000 turnover (not profits) or more.

It means you have to register with HMRC and make a return every quarter within 30-days of the quarter end of your property and trading results. At the end of the year, you will send HMRC, a fifth end-of-year statement which effectively is your annual accounts. This has to be done digitally and currently that means you can use a spreadsheet and upload it to the HMRC website, or you can use accounting software that is MTD compliant.

Why are HMRC doing this?

We think HMRC has three reasons for doing this, but only the first has been made public. The public reason is that HMRC wants to simplify and speed up tax recording for you, and it's a cost saving for them.

Our best guess for the second reason, further down the line, is that HMRC may well say that if you can record how much you have earned quarterly, you can pay HMRC quarterly. Apart from the cash flow implications, it does mean that your fifth full return after year end will almost inevitably have some adjustments and if profits are adjusted down, you have overpaid and need to get that back somehow whilst explaining why profits have dropped. This brings us to the real issue.

The most important reason is the third. HMRC admit there is a £8bn (2018) a year tax gap owing to avoidable mistakes. MTD gives HMRC far more data sooner and therefore far more opportunity to plug this gap by correcting your mistakes, plus potential penalties and interest. Politically this is a no-brainer. There would be no need to increase taxes to help fill the black hole of public finances, which would upset voters, and we are all supposed to be paying the right amount anyway. It's an easy win for them. And of course – there is a penalty regime if you get MTD wrong. After all, HMRC would now have “proof” that your bookkeeping isn't perfect

What and when do you need to do something?

The £10,000 turnover limit applies to income in the next and following tax year, as that decides if you need to declare for 2024. Accordingly, we suggest you have to do something now. If you are below this limit in the 2023 tax year, then you can defer this decision until the tax year in which the limit is exceeded. This will need some discussion and planning. But first it needs good quality information, which is why we suggest you start a year early. It also gives you plenty of time to get used to new ways of working so you don't immediately fall foul of the new regime.

If you are over the turnover limit, and therefore have to comply, then another discussion is needed about how you will adapt your record keeping to comply. It's perfectly possible for you to produce your own records. These have to be transaction based, which means no estimates. Everything has to be backed up by something on your bank account and a receipt. As we've said, you can use a spreadsheet but getting that into a format to upload to the HMRC website could take some time. Using accounting software is generally a lot quicker and is likely to be more accurate and also is likely to reduce the chance of an HMRC inspection.

That is simply because it's complete and HMRC cannot “break the books”, which is their expression for describing something which is incomplete or unexplained in your bookkeeping. You can use QuickBooks, Xero or Sage, which are subscription based.

We have an experienced team who specialise in the various cloud systems. We also offer specific training packages on these platforms.

Alternatively, you can use Zoho books for free if your turnover is below £35,000.

Use a separate bank account

Don't use your personal account for any property business related entries. Keeping them separate means that HMRC can only look at the business records and can't acquire access to your personal transactions unless they can show there are unexplained entries which might be income. Using your personal account also means you will have to record all the personal data in your software to evidence that these entries aren't business.

There are a number of online bank accounts which are quick to set up and free, so it's very worthwhile making this differentiation, as it saves you time, money and aggravation.

Are there any benefits?

Surprisingly there are benefits. We have found with the MTD for VAT regime that clients, sometimes with our help, have kept their books better and are therefore making better decisions because they are basing those decisions on more accurate up to date information.

Equally, having to do four returns to HMRC means that there are four opportunities for planning your tax affairs. We don't think that you should restrict that planning to just property income, because all incomes are aggregated to arrive at your tax bill. In which case, it's useful to including any PAYE income, dividends or anything else that impacts your tax liability.

Additionally, if this covers all your income, then you won't need to submit a self-assessment tax return.

In which case it's not all bad news. But this does need conversations quite soon to decide firstly whether this can be avoided for a year or two, and then if it can't, how is it going to be dealt with, and by whom, and when. There are obvious cost implications, but there are obvious benefits as well. Outsourcing is generally cost effective, and this might be a good solution for you.

We can help

Landlords have thus far escaped many of the more rigorous filing regulations that apply to VAT registered businesses. The changes we have outlined above underline that these days are numbered. Finding a suitable digital alternative to your present manual or spreadsheet systems should be your first priority. You will also need to decide if you are going to adapt and manage these alternatives or outsource record keeping.

Next Steps

We can help with both of these issues. Can we start this conversation soon? Although April 2024 may seem a lifetime away, there are serious challenges to overcome, and as we have said in this report, it is not all cost and no benefits. There are real benefits to having real-time data available to help you make informed decisions about your property business.

Call us on **01753 888211** or email **info@nhllp.com** we would be happy to assist.