

MTD for income tax – trading and property income

(Lecture P1237 – 9.02 minutes)

Self-employed individuals and landlords with annual business or property income above £10,000 will fall within MTD for Income Tax from their next accounting period starting on or after 6 April 2023.

Start date

It is important to appreciate that it is the source of income that is mandated under MTD for Income Tax, not the individual taxpayer. This means that individuals who are self-employed and also rent out property could have two separate mandated start dates.

Individuals with property income have a compulsory accounting year of 5 April. Landlords will therefore have to start meeting their MTD obligations for their rental income from 6th April 2023, i.e. their first accounting period starting on or after 6 April 2023. From the start of 2023/24, property information will be submitted quarterly and then finalised via an annual upload.

If the same individual is self-employed and trades to 5th April each year, then their trade and property MTD obligations would start at the same point in time, i.e. 6 April 2023. However, if their trading year was to 31 July (say), their quarterly MTD obligations for their trading income would start later on 1st August 2023. This is their first accounting period for trading income starting on or after 6 April 2023.

Submitting returns

There will be separate submission obligations for each source of income for quarterly updates and an end of period statement. Software developers are expected to make the end of period statement a single process.

This end of period statement needs some thought. Let's return to our trader with a 31 July year end who will join MTD for Income Tax in respect of their trading income from 1 August 2023. If the trader also has rental income, they must start quarterly reporting of the rental income from 6 April 2023. Two different start dates for quarterly reporting but what about the end of period statement?

Whilst there is no official guidance on how two mandated start dates will work, we have received comment from an HMRC spokesperson on how they see it working.

It appears that the trader will still need to submit their trading information for the year to 31 July 2023 as part of the end of period statement for 2023/24, even though their year to 31 July 2023 would have had no quarterly uploads. This is simply because their rental income created an obligation to submit an end of period statement.

What about individuals who trade to 31 March 2024? Such traders will fall with MTD for Income Tax from 1 April 2024, i.e. their first accounting period starting on or after 6 April 2023.

If they also have property income, HMRC will be expecting an annual upload of:

- rental income - to supplement the quarterly uploads submitted through the 2023/24 tax year; and
- trading income for the year to 31 March 2024- without any quarterly uploads during the tax year.

Jointly owned property

Partnerships will be able to submit one report for the partnership, with the MTD system allocating the profits according to a statement about how the income is split between the relevant partners. Where property owners have formed a partnership, they should be able to adopt this approach.

Where individuals own property jointly rather than in partnership, both individuals will be responsible for keeping digital records and making their quarterly and year end submissions. However, HMRC believe that software developers will create products with functionality that allows them to keep one combined set of digital records. The software should then be able to upload the required information into both individuals tax accounts.