



Chartered
Institute of
Taxation

30 Monck Street
London SW1P 2AP
T: +44 (0)20 7340 0550
E: post@ciot.org.uk

Ref: TPOC, DASC

13 January 2021

Submitted via the Budget representations portal

Dear Sirs

Budget representation on the taxation of property income

The Chartered Institute of Taxation (CIOT) is the leading professional body in the UK for advisers dealing with all aspects of taxation. We are a charity and our primary purpose is to promote education in taxation with a key aim of achieving a more efficient and less complex tax system for all. We draw on the experience of our 19,000 members, and extensive volunteer network, in providing our comments.

We are recommending that the government undertakes a stage one consultation in relation to the basis period for the taxation of property income generated by individuals for the purposes of Making Tax Digital (MTD).

The government announced on 21 July 2020 that MTD for Income Tax Self-Assessment (ITSA) would become mandatory from April 2023. Self-employed businesses and landlords with annual business and/or property income above £10,000 will need to follow the rules for MTD for Income Tax from their next accounting period starting on or after 6 April 2023.

We have had ongoing engagement with HMRC in relation to MTD following its announcement in December 2015, and we are pleased that this engagement is continuing.

The Issue

One of the complexities MTD for ITSA exacerbates is that property income is taxed on a tax year basis (6 April to 5 April), whereas trading income is taxed in relation to basis periods (this is usually the 12-month period ending with the accounting date in the tax year). This creates a mismatch in reporting obligations for taxpayers with trading businesses that do not prepare their accounts to 5 April, where the business owner also has property income.

It quickly becomes apparent that, even in quite common circumstances, MTD could require individuals and businesses to submit quarterly and end of period updates with a frequency that will impose significant additional burdens on individuals and businesses compared to those under the current rules. The attached illustration shows that a VAT registered self-employed individual, with a buy to let property, could face up to fifteen separate updates, most with a different deadline, within a twelve month period (compared to just five under the existing regime).

HMRC's proposal for greater flexibility

HMRC has recently, in conjunction with representative bodies (including ourselves) and software developers, been exploring how this can be addressed by providing taxpayers with flexibility around their MTD for ITSA updates to make the process less burdensome (such as to align MTD for ITSA update periods with their VAT quarters).

It is becoming apparent that most software is unlikely to facilitate this flexibility; especially if the update period chosen spans the business's accounting year end. Accordingly, there is a risk that this potential flexibility will need to be removed, resulting in mandatory quarterly reporting deadlines for MTD for ITSA; leading to the plethora of separate updates as shown in our illustration.

While steps can be taken to align these reporting periods (such as changing the VAT return periods, or the accounting year end date), this does not address the potential mismatch in reporting obligations for taxpayers who have both trading income and property income.

Recommendation

In order to provide a smoother implementation of MTD for ITSA, we recommend that the government undertakes a stage 1 consultation to examine how the basis periods might be aligned for property and trading income to ameliorate the reporting burdens under MTD.

While a stage 1 consultation should thoroughly explore all options available, one such option may be the ability for taxpayers to choose to have their property income basis period aligned with their trading income basis period. There is precedent in the current treatment that applies to partnerships.¹ In any event, it seems unlikely that a sensible or proportionate solution can be found if changes to primary legislation are ruled out of scope.

We appreciate that this is a complex area, but it is one that requires prompt attention because mandation of MTD for ITSA is only just over two years' away. In accordance with the government's budget timetable, if a consultation is launched in spring 2021 we consider that changes could be made effective from the commencement of MTD in April 2023. If this is not possible, we suggest that the Government leaves open the option of deferring the mandation of MTD for property income until a solution to address the aforementioned issue is found.

We would be happy to work with HMRC policy and HM Treasury in drawing up the consultation.

The Chartered Institute of Taxation

13 January 2021

¹ Firms with trading and other source income ITTOIA 2005 section 854

The Chartered Institute of Taxation

The CIOT is an educational charity, promoting education and study of the administration and practice of taxation. One of our key aims is to work for a better, more efficient, tax system for all affected by it – taxpayers, their advisers and the authorities. Our comments and recommendations on tax issues are made solely in order to achieve this aim; we are a non-party-political organisation.

Our stated objectives for the tax system include:

- A legislative process that translates policy intentions into statute accurately and effectively, without unintended consequences.
- Greater simplicity and clarity, so people can understand how much tax they should be paying and why.
- Greater certainty, so businesses and individuals can plan ahead with confidence.
- A fair balance between the powers of tax collectors and the rights of taxpayers (both represented and unrepresented).
- Responsive and competent tax administration, with a minimum of bureaucracy.

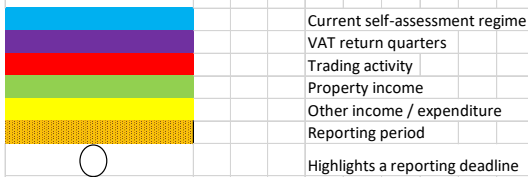
The CIOT's work covers all aspects of taxation, including direct and indirect taxes and duties. Through our Low Incomes Tax Reform Group (LITRG), the CIOT has a particular focus on improving the tax system, including tax credits and benefits, for the unrepresented taxpayer.

The CIOT draws on our members' experience in private practice, commerce and industry, government and academia to improve tax administration and propose and explain how tax policy objectives can most effectively be achieved. We also link to, and draw on, similar leading professional tax bodies in other countries.

Our members have the practising title of 'Chartered Tax Adviser' and the designatory letters 'CTA', to represent the leading tax qualification.

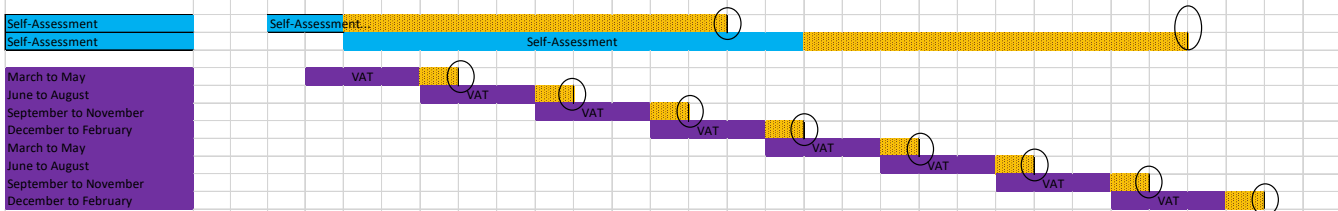
Trading business - accounting year ending 31 July
 Property rental business - year ended 5 April (by law)
 VAT return quarter ends February, May, August, November

Key



End Jan / early Feb	End Feb / early Mar	End Mar / early April	End April / early May	End May / early June	End June / early July	End July / early Aug	End Aug / early Sept	End Sept / early Oct	End Oct / early Nov	End Nov / early Dec	End Dec / early Jan	End Jan / early Feb	End Feb / early Mar	End Mar / early April	End April / early May	End May / early June	End June / early July	End July / early Aug	End Aug / early Sept	End Sept / early Oct	End Oct / early Nov	End Nov / early Dec	End Dec / early Jan	End Jan / early Feb	End Feb / early Mar	End Mar / early April	End April / early May	End May / early June
---------------------	---------------------	-----------------------	-----------------------	----------------------	-----------------------	----------------------	----------------------	----------------------	---------------------	---------------------	---------------------	---------------------	---------------------	-----------------------	-----------------------	----------------------	-----------------------	----------------------	----------------------	----------------------	---------------------	---------------------	---------------------	---------------------	---------------------	-----------------------	-----------------------	----------------------

Existing regime (five submissions in a twelve-month period)



Under Making Tax Digital (potentially fifteen submissions in a twelve-month period in reporting periods cannot be aligned)

