Making Tax Digital for Income Tax (MTD IT) – Digital record keeping

The requirement to keep digital records will not mean that you have to scan and store invoices and receipts digitally. You can continue to keep documents in paper form if you prefer, but each individual transaction (not summaries) has to be recorded and stored digitally

For each source of self-employment income you have, you will need to:

- create separate digital records
- send separate quarterly updates

For example, if you are an electrician as well as a driving instructor, you will need to create one set of digital records for each of your businesses.

You should create separate digital records for your UK and foreign property businesses, if you are UK tax resident.

Your UK properties are treated as one ‘UK property business’, your non-UK properties are treated as one ‘foreign property business’.

Your share of any jointly let properties will form part of either your UK or foreign property business.

You also need to include self-employment income and rental income where either would be covered by the £1,000 trading/property income allowance and income from Rent a Room

Detailed digital records:

When you create records of your income or expenses, you will need to record the following:

- amount
- date when the income was received or expenses incurred
- category - use the categories below or you can use more and combine the figures into the relevant heading

For trading income you must provide the following information in each quarterly update:

- quarterly update period start date
- quarterly update period end date
- totals of the amounts falling within income and expenses categories as follows:

Business income

- Turnover
- Other business income

Business expenses (allowable and disallowable)

- Cost of goods bought for resale or goods used
- Construction industry — payments to subcontractors
- Wages, salaries, and other staff costs
- Car, van, and travel expenses
- Rent, rates, power, and insurance costs
- Repairs and maintenance of property and equipment
- Phone, fax, stationery, and other office costs
- Advertising
- Business entertainment costs
- Interest on bank and other loans
- Bank, credit card and other financial charges
- Accountancy, legal and other professional fees
- Other business expenses

For property income you must provide the following information in each quarterly update:

- quarterly update period start date
- quarterly update period end date
- totals of the amounts falling within property income and expenses categories as follows:

UK property

Property income

- Total rent
- Other income from property
- Premiums for the grant of a lease
- Reverse premiums and inducements

Property expenses (allowable and disallowable)

- Rent, rates, insurance and ground rents
- Property repairs and maintenance
- Non-residential property finance costs
- Residential property finance costs
- Residential finance costs brought forward
- Legal, management and other professional fees
- Costs of services provided, including wages
- Travel expenses
- Other allowable property expenses

Foreign property

Foreign property income

- Total rents
- Other income from property
- Premiums for the grant of a lease

Foreign property expenses (allowable and disallowable)

- Rent, rates, insurance and ground rents
- Property repairs and maintenance
- Non-residential property finance costs
- Residential property finance costs
- Unused residential property finance costs brought forward
- Legal, management and other professional fees
- Costs of services provided, including wages
- Travel expenses
- Other allowable property expenses

Circumstances where you can keep less detailed records (simpler categorisation):

If your annual turnover from either self-employment or property is below the VAT registration threshold (£90,000), you may choose to categorise your digital records of income and expenses in less detail.

If you have more than one income source, you can only use simpler categorisation for both income sources if your turnover is below the VAT threshold for each income source.

For each relevant source of income, you can record items as either income or an expense, instead of using the more detailed categories. This will mean you only send figures for total income and total expenses, for each relevant income source, in your update information.

If you receive property income and incur residential property finance costs (such as mortgage interest), you must create a separate digital record for these costs and send them separately from other expenses in your update information.

If your turnover goes above £90,000, you will need to categorise all digital records for that income source in full, including those:

- from the beginning of the current tax year
- in the following tax year

If you're unsure if your turnover will go above £90,000, you should categorise your digital records in full detail.

Landlords with jointly let property:

Landlords will only need to keep digital records and submit quarterly updates in respect of their share of income and expenses relating to jointly owned properties.

You can choose to submit full details of income and expenses each quarter. Alternatively, in respect of jointly owned properties only, you can choose to just report your share of income (not expenses) each quarter. Your share of expenses would be reported via your end of year submission (tax return) instead.

Retail sales

For retail sales of a business simpler digital records mean a single digital record of the daily gross takings for any retail sales made.

The gross daily retail sales digital record must include:

- all payments as they are received by the sole trader or on their behalf, from their own cash-paying retail consumers —this includes payments by cheque, debit or credit card, maestro, visa or similar electronic transactions and electronic cash
- the full value of all credit or other non-cash retail sales received by the sole trader or on their behalf — this includes the full value of credit sales, the cash value of payment in kind for retail sales, the face value of gift, book and record vouchers received and any other payments for retail sales, including those sales completed via third-party online sales platforms

The following should be excluded when calculating the amount of daily gross takings:

- counterfeit notes
- illegible credit card transactions
- inadvertent acceptance of foreign currency (where discovered after their acceptance)
- inadvertent acceptance of out-of-date coupons which are not honoured by promoters
- instalments in respect of credit sales
- refunds to a consumer for overcharges or faulty or unsuitable goods
- float discrepancies
- unsigned or dishonoured cheques from cash customers
- use of training tills
- void transactions
- any other income that is not included in the gross daily retail sales digital record