M+A Partners

Buy-to-let Property Tax

2022/23

The Government introduced some fundamental changes to the taxation of residential buy-to-let property, which took effect on 6 April 2017.

The rules around tax deductibility of expenditure on repairs and renewals of fixtures, equipment and furnishings in particular have changed, as well as those relating to the timing of income and expenditure that is accounted for in any particular tax year. These changes are summarised below, together with earlier announcements that are still in effect.

Our 'Furnished Holiday Property Tax factsheet' sets out the different rules applying to those properties. Please get in touch if you would like a copy of this factsheet.

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1 For the majority of individual landlords, income and expenditure is now accounted for on the basis of actual receipts and payments in the tax year (referred to as the cash basis) rather than by allocating them to a specific time period (accruals basis).

For example, landlord's insurance may renew on 6 July; on the accruals basis 9/12 of the renewal premium would be claimed in the tax year in which paid, for the period 6 July to next 5 April and 3/12 would be carried-forward to be claimed in the subsequent tax year. Under the cash basis, the full annual premium will be claimed as the actual payment in that year. This applies to all property rental businesses with gross income of less than £150,000.

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2 The cash basis is the default, although it is possible to elect for the accruals basis to apply, should that be in the landlord's favour. UK and overseas property businesses are treated separately and can use different accounting methods. However, all properties within each business must be accounted for on the same basis, i.e. all UK properties and all overseas properties.

3 If you take a mortgage advance on your buy-to-let property, tax relief on the interest now depends on the use of that loan. HM Revenue & Customs (HMRC) updated their guidance confirming that the additional borrowing must be used wholly for the purposes of your lettings business. Relief for mortgage interest has been restricted. From 2020/21, landlords are no longer able to deduct finance costs from their property income; they will instead receive a basic rate reduction to their income tax liability.

As well as restricting tax relief to basic rate (20%), the measure has the effect of increasing taxable income and can result in the landlord becoming a higher-rate taxpayer and may affect certain benefit entitlements.

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4 Expenses incurred 'wholly and exclusively' for the purpose of the business are tax deductible, for example; council tax, insurance, agent's fees and advertising. The cost of replacement of items for domestic use is tax relievable on a like-for-like basis. The relief applies to moveable furniture (sofas, tables, bed frames etc), furnishings (curtains, rugs, carpets etc), household appliances (fridges, freezers, washing machines etc) and kitchenware (utensils, crockery, cutlery etc). Expenditure on replacing property fixtures such as baths, washbasins, toilets and fitted furniture (built in wardrobes and cupboards), boilers and radiators may be allowable for income tax purposes as a repair to the building. This largely depends on the extent of the work carried out and so we would recommend that advice is sought when considering significant expenditure.

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5 Income for tax purposes will usually be split between joint owners in proportion to ownership. Joint owners will be free to make separate decisions about whether to use the cash basis, although in practice we anticipate that they will align their requirements. The exception to this is married couples and those in a civil partnership, where the income must be accounted for on a consistent basis and is automatically split 50:50, unless a declaration is made on form 17 to HMRC so that the actual beneficial ownership split is used instead (for example, if the property is owned 75:25). We recommend that you seek professional advice in regard to these issues.

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6 Losses sustained in a tax year are carried forward against future rental profits from the same rental business. They cannot be set against other taxable income of the year.

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7 HMRC should be informed when letting commences, and tax returns will be necessary for each owner unless their gross rental income is less than £1,000. It is essential to notify HMRC of new sources of rental income by 5 October following the end of the tax year to avoid late notification penalties being levied.

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8 Rental profits will be added to the owner's other income and taxed at their marginal rate of income tax (currently 20% for basic rate tax payers or 40% / 45% for higher rate and additional rate tax payers, depending on taxable income levels).

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9 Capital gains on residential property are subject to Capital Gains Tax (CGT) at 18%, where the gain falls within the basic rate band and 28% where the gain falls in to higher rates. This represents an 8% surcharge on the standard CGT rates of 10% and 20% applicable to other assets, such as shares.

HMRC require online reporting and payment of CGT on the disposal of UK residential property within 60 days of completion.

10 Expenditure on improvements to the property are subject to tax relief only when the property is sold (e.g. the cost of a new conservatory will reduce the capital gain on sale).

11 Stamp Duty Land Tax (SDLT) is payable on the purchase of buy-to-let property at rates of between 3% and 15%, depending on the price paid.

12 In some circumstances, it might be beneficial to trade via a limited company but seek professional advice first.

13 If you live abroad for 6 months or more per year you are classed as a non-resident landlord by HMRC, even if you are UK resident for tax purposes. HMRC require you to apply to receive income without deduction of income tax under the Non-resident Landlord Scheme.

14 Finally, we would recommend the use of a letting agent to manage your property. They will be able to ensure that you comply with the increasing responsibilities of landlords, such as checking your tenant's right to rent, health and safety requirements and tenancy deposit protection.

This is a brief summary, for further information please contact our experts:

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M+A Partners

M+A Partners has been helping clients to grow their businesses and achieve their ambitions for over a century - and we're immensely proud of our history.

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Our Norfolk-based firm is led by ten partners who are some of the most high-profile and well-respected experts in their fields locally, supported by a talented team of over ninety staff.

We have a well-earned reputation for building excellent relationships with clients and the wider business community. That has always been, and continues to be, our number one priority.

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