BREWERS Chartered Accountants X DUNCAN·YEARDLEY

Guide...

Tax for landlords

INTRODUCTION

By John Hughes, Managing Partner,
Brewers Chartered Accountants

Where do you start if you are buying, or have recently inherited, an additional property? If you intend to let it out commercially, are there tax obligations of which you need to be aware?

As a landlord you will likely be liable to pay tax when purchasing and letting your property but, also, if you sell the property. As with any other business, if you make a profit, it will be liable to taxation.

However, navigating your obligations can be complicated, particularly for first-time landlords, so we've put together this guide to help ensure that you pay the correct amount of tax at the right time. We've also included some helpful tips on potential tax savings you can make with a bit of careful planning.

BUYING THE PROPERTY

If you are buying an additional residential property, then you will need to pay an enhanced form of Stamp Duty Land Tax equal to an additional 3% on top of the normal stamp duty bands.

If the property is worth more than £40,000, there is no zero band, as would be the case for a single property purchase for your own occupation.

Stamp duty must be paid within 14 days of completion and the return is usually completed and submitted by your solicitor.

14 DAYS

Stamp Duty must be paid within 14 days of completion

LETTING THE PROPERTY

Rental income is subject to income tax and needs to be reported to HMRC by self-assessment. If you are not already completing a tax return, you may need to register with HMRC online to ensure a return can be filed and any tax paid on time (by 31 January following the tax year of first receipt).

The rate of tax payable will be calculated by reference to your total taxable income, with rates ranging from 0% to 45%.

As a landlord you will be able to claim relevant expenses for letting the property to reduce your profits subject to tax. To the right are some examples of allowable expenses.

ALLOWABLE EXPENSES*

- Council Tax
- Fees charged by letting agents
- Legal and accountancy fees
- Property insurances
- Utility bills

*This list is not exhaustive; discuss your allowable expenses with your tax adviser.

SELLING THE PROPERTY

When you decide to sell your rental property, any increase in value over the time that you have owned it will potentially be liable to Capital Gains Tax (CGT). It is important to understand that the taxable gain is the difference between purchase price and sale price (market value) and not any equity left after sale.

Some expenses can be offset against the gain, including improvement works, professional fees and stamp duty as well as an annual exemption of £6,000 for the tax year ending 05 April 2024 (£3,000 for year ending 05 April 2025)

The gain is added to your taxable income and any part that is within your basic rate band will be taxed at 18% with any gain over the basic rate band taxed at 28%.

A separate CGT return must be submitted and tax paid within 60 days of completing the sale.

CGT

The taxable gain is the difference between the purchase price and the sale price

WHAT IF YOU MAKE A LOSS?

If your eligible costs exceed your rental income in a given year, the result is a loss for tax purposes.

If you make a loss in the year this is carried forward automatically to be offset against future profits, but only from the same source of income and not against other sources.

If you are renting out more than one property the income and expenditure from all properties are combined to determine a profit or loss for the year.

Below is an example to illustrate how to deal with losses if you are renting more than one property.

PROFIT AND LOSS (MULTIPLE PROPERTIES)

A **Property A**
Profit £3,000

B **Property B**
Loss £4,000

OVERALL LOSS
£1,000*

***Automatically carried forward as detailed above**

TAX-SAVING OPPORTUNITIES

If you have a spouse that doesn't pay Income Tax, it is possible for them to transfer £1,260 of their Personal Allowance to you to offset against your total income.

If you both pay basic rate Income Tax, then owning the property as a partnership will enable you to split the rental profits between you.

If you are already a higher rate taxpayer, then you may want to consider buying and owning the property via a limited company. Rather than paying Income Tax and Capital Gains Tax, companies pay Corporation Tax on profits and gains at rates ranging from 19% to 25%.

Subject to certain conditions, limited companies can claim relief for residential property finance costs – such as mortgage interest – whereas individuals receive a tax credit equal to 20% of the lower of: finance costs, total profit or total earned income exceeding personal allowances.

ABOUT US

Brewers Chartered Accountants

Brewers is a full-service accountancy practice, providing practical solutions for individuals and businesses, with a particular focus on tax advice and planning.

Duncan Yeardley Estate Agents

With our exceptional property knowledge and passion for the local area, a committed and hard-working team plus fantastic marketing using the latest technology – we always put our customers first to help you achieve the best results.

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