Top 10 Tips:

Landlords: how to pay less

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What type of landlord are you?

There are an estimated 2.66m private landlords

✓ there are two main ways of owning buy-to-let property:

- personal ownership
- through a limited company

Personal ownership

✓ you are liable for income tax & if you operate as a business, you will also be liable for National Insurance

✓ depending on your total income, you might need to complete an annual self assessment tax return

✓ as you are effectively operating as self employed the admin burden remains relatively low

× mortgage tax relief has been phased out, with landlords now given a 20 per cent tax credit for all their property finance costs, increasing the amount of tax paid by higher or additional-rate taxpayers

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Limited company / SPV set-up

Given tax changes over the last few years, the Limited Company option has become more attractive to landlords. There are 2 options:

- trading company: which operates in the same way as any other business
- ‘Special Purpose Vehicle’ (SPV): which is a non-trading company, existing exclusively for buying, selling & letting property

✓ operating through an SPV, you can continue to receive 100% mortgage interest tax relief

✓ as a Limited Company you pay Corporation Tax: currently 19%

✓ if you own multiple properties & have a high rental income, a Limited Company may prove to be more tax efficient

× the Limited Company model is certainly not for everyone, as it is more involved to set-up, leads to additional administrative duties, increased costs & some loss of privacy

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Shared ownership

If you are married or in a civil partnership, you could potentially take advantage of your partner's personal allowance by purchasing a buy-to-let property in both of your names:

- ✓ the profit would be split between you (based on the ownership %), which could reduce the total income of the highest earner
- ✓ this can make sense if for example you are a higher or additional rate taxpayer & your spouse is a basic rate taxpayer or pays no tax
- ✓ in the current tax year the personal allowance is £12,570
- × while there are clearly potential tax benefits from going down this route, it is important to also understand any potential risks. I would therefore advise talking to a tax expert to confirm the best approach, based on your particular circumstances

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Record keeping

- ✓ whether you're self employed or operating as a Limited Company, you're required to keep accurate records of rent received & expenses incurred, to work out the profit you'll pay tax on
- ✓ many expenses incurred are tax deductible, so make sure you keep & record all relevant receipts / invoices to reduce your net profit
- ✓ this counts for your start-up costs too, things like estate agents fees, landlord insurance & travel costs for your trips to & from your rental property. It all adds up!
- ✓ separate your income from fully-furnished lettings and unfurnished or part-furnished lettings
- ✓ you must keep your records for at least 5 years after the 31 January tax return deadline for each tax year

HMRC can charge you a penalty if your records are not accurate, complete & readable or if you do not keep them for the required period of time.

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Allowable expenses: residential

You can deduct expenses from your rental income when you work out your taxable rental profit as long as they are wholly and exclusively for the purposes of renting out the property

For residential properties the following are deductible expenses:

- ✓ letting agents' fees, legal fees for lets of a year or less, or for renewing a lease for less than 50 years, accountants' fees, buildings & contents insurance, maintenance & repairs to the property (but not improvements), utility bills, like gas, water & electricity, rent, ground rent, service charges, Council Tax, services you pay for such as cleaning or gardening, other direct costs of letting the property for example phone calls, stationery & advertising
- × allowable expenses do not include 'capital expenditure' - like buying a property or renovating it beyond repairs for wear and tear
- ✓ you may be able to claim tax relief on money spent on replacing a 'domestic item'. Domestic items include: beds, sofas, curtains, carpets, fridges, crockery & cutlery

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Allowable expenses: furnished holiday lettings

- ✓ For furnished holiday homes, you may be able to claim:
  - plant & machinery capital allowances on furniture, furnishings & so on in the let property, as well as on equipment used outside the property (like vans and tools)
  - Capital Gains Tax reliefs - Business Asset Rollover Relief, Entrepreneurs' Relief, relief for gifts of business assets & relief for loans to traders
- ✓ You can only claim these if all the following apply:
  - the property is offered to let for at least 210 days a year
  - it's let for more than 105 days a year
  - no single let is more than 31 days
  - you charge the going rate for similar properties in the area ('market value')
- ✓ you can download help sheets from gov.uk to assist you with your tax return

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Calculating profit

- ✓ you work out the net profit or loss for all your property lettings (except furnished holiday lettings) as if it's a single business. To do this, you:
  - add together all your rental income
  - add together all your allowable expenses
  - take the expenses away from the income
- ✓ work out the profit or loss from furnished holiday lettings separately from any other rental business to make sure you only claim these tax advantages for eligible properties
- ✓ if you make a loss you can offset it against:
  - future profits by carrying it forward to a later year
  - profits from other properties (if you have them)
- × you can only offset losses against future profits in the same business

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Register for self assessment

- ✓ if you personally rent out property, then you are likely to be liable for tax on the profits:
  - the first £1,000 of your income from property rental is tax-free.
  - if your income from property rental is between £1,000 and £2,500 a year you should contact HMRC
  - you are liable to file a self assessment tax return if your income from property rental is: more than £2,500 after allowable expenses, or £10,000 or more before allowable expenses
- ✓ you need to register with HMRC for self-assessment by 5 October in the tax year after you started receiving rental income
- ✓ on-line tax return is due by 31st January: i.e. tax return for 2020/21 tax year is due by 31/01/22, along with payment of any tax
- ✓ landlords with annual business or property income above £10,000 will need to follow the rules for Making Tax Digital (MTD) for Income Tax from their next accounting period, starting on or after 6 April 2023

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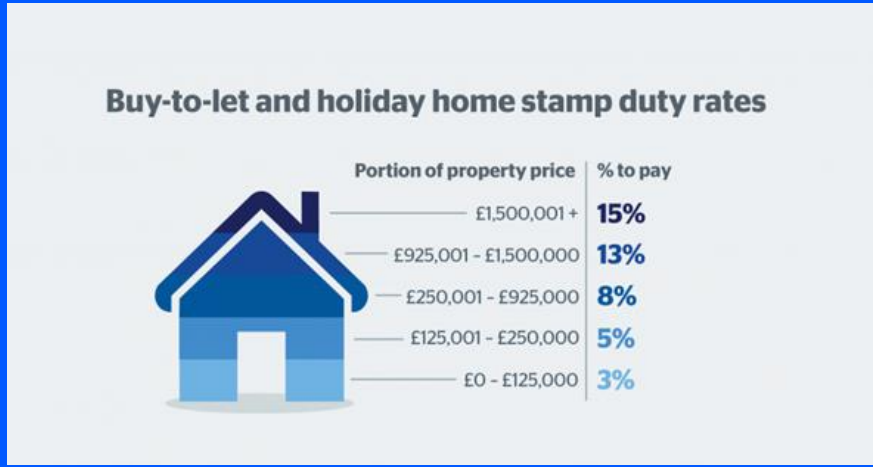
Stamp Duty

- ✓ you must pay Stamp Duty Land Tax (SDLT) if you buy a property or land over a certain price
- ✓ when you're buying a property you don't intend to live in for most or all of the time - e.g. a buy-to-let property or holiday/second home - you'll have to pay 3% extra in stamp duty, giving the following rates:



- ✓ an extension to the stamp duty holiday means that until 30th September 2021, you will only pay 3% on up to £250k
- ✓ stamp duty payments take place at the end of the purchase, and you have 14 days to file a SDLT return & pay the amount due

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Capital gains tax

- ✓ when you sell property that's not your home, you may have to pay Capital Gains Tax (CGT) if you make a profit ('gain')
- ✓ profit is the market value of your property, minus any estate agents' fees, solicitors' fees & the costs of major improvement works (building an extension would be included in the calculation; redecorating would not)
- ✓ HMRC provides a tax calculator for working out how much capital gains tax you have to pay, if any
- ✓ the current CGT tax-free allowance is £12,300, with the rates of capital gains for residential property:
  - 18% for a basic rate taxpayer
  - 28% for a higher or additional rate taxpayer
- ✓ anyone who makes a taxable capital gain from a UK residential property will have to pay the tax owed on-line within 30 days of the date of completion by submitting a 'Residential Property Return'

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For more information

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Also view: Work out your rental income when you let property - GOV.UK (www.gov.uk)

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