John Francis

# Landlord Tax Guide

# Introduction

There's never been a better time to be a landlord – house prices are up and the pool of prospective tenants looking to rent continues to get deeper. As a landlord you have the opportunity to be financially independent and potentially retire earlier.

There are good financial rewards to be reaped from letting, despite the requirement to pay one form of tax or another – whether it's land transaction tax, income tax or capital gains tax. To avoid any pitfalls, it's crucial you understand what needs to be paid and when.

We've put together this handy guide featuring the must-know information about tax on property rentals. As property experts ourselves, we understand that tax can be tricky – whether you're new to the lettings game or a seasoned landlord – so we want to help out.

**Please note: this information is meant for guidance purposes only and should not be considered a substitution for professional advice. We recommend speaking to a trained tax professional, such as an accountant or HMRC. Rates quoted are applicable for tax year 2021/22. Information correct at the time of publishing May 2021.**

# Buying Your Property

## Land transaction tax (LTT)

LTT is charged when you buy a property or piece of land – whether it's residential or non-residential and whether or not you are a first time buyer.

Charges on LTT were temporarily changed in July 2020 and, luckily for buyers, mean those purchasing a home under £250,000 will now pay no LTT – saving thousands of pounds.

If you're buying a second home under these rules, you may need to pay higher residential rates – to find out whether your second home will be excluded from these rates, check the gov.wales website.

Please note, these tax cuts will only remain in place until 30 June 2021.



# Letting Your Property

## Income Tax

Once you've started renting your property out, you'll need to start declaring any income you receive from lettings to HMRC by self-assessment.

The rate of income tax you pay varies by how much you earn and whereabouts in the UK you live - for up-to-date rates where you are, check the income tax section on the gov.uk website.

Landlords are entitled to a £1,000 tax-free property allowance (pre-expenses) – so if you make less than £1,000 a year from letting property, you don't need to tell HMRC. If you're employed as a landlord, i.e. if you file a self-assessment tax return and don't run a limited company, you're entitled to a £1,000 tax-free trading allowance.

Landlords who make a gross profit of between £1,000 and £2,500 from lettings must make HMRC aware of this to pay tax. Landlords who make between £2,500 and £9,999 after expenses or over £10,000 before expenses will need to self-assess and may have to pay income tax.

## National Insurance

You will also be required to pay National Insurance contributions (NIC) on your rental profits. Class 2 NIC will apply if your annual rental profits are £6,515 or more and the following criteria apply to you:

- Your only job is being a landlord
- You rent out more than one property
- You're buying new properties to rent out

Class 4 NIC is also payable on rental profits that exceed £9,568 a year

| Class | Rate for tax year 2021/22 |
|---|---|
| Class 2 | £3.05 per week |
| Class 4 | 9% on profits between £9,568 and £50,000<br>2% on profits over £50,270 |

HMRC has created a comprehensive guide to income, which is available on their website. Please note: we recommend you speak to a trained tax professional, like an accountant or HMRC. For more information on income tax, visit HMRC's website.

## Finance Costs

Landlords of residential properties can get basic rate tax relief for the interest costs they incur in relation to the purchase of the rental property. This is given as a reduction of the tax due to the lower of:

- The related interest costs in the year
- The business profits from rentals
- Total of all taxable income (after losses/reliefs) that exceed the personal tax-free allowance

## Expenses

**To assist you with the up-keep of letting, HMRC allows landlords to claim for everyday expenses that running and maintaining properties may incur. These include:**

- Insurance, e.g. landlords insurance and buildings and contents insurance
- Accountants Fees
- Operational costs, e.g. transport, fuel and stationery
- Ground rent and service charges
- Bills paid while the property is not being let out
- Testing, e.g. fixed wire, gas, legionella
- General repairs, cleaning and gardening
- Legal costs, e.g. cost of tenancy agreement or notices to vacate
- Advertising Fees
- Management Fees from letting agents
- Administration Fees
- Deposit Protection Scheme Fees

**As a landlord, you can claim tax relief for replacement household goods, including:**

- Free-standing furniture, e.g. beds and wardrobes
- Furnishings, e.g. curtains, carpets and floor coverings
- Household appliances, e.g. televisions, fridges and microwaves
- Kitchenware, e.g. crockery and cutlery

It's important to remember that this relief only applies to replacement furniture and not furnishing a property before you let it.

If you're earning money as a landlord, you must let HMRC know within six months – this can be done by calling them on 0300 200 3310.

The tax year runs from 6th April – 5th April each year. Landlords can file a paper-based self-assessment by post before 31st October or complete the return online by 31st January.

If you fulfil the criteria to be registered, don't leave it too late – you should register by 5th October at the latest.

### Landlords with multiple properties

It's common for landlords to have more than one property. Where this applies, your tax is similar to running any other business. With regards to self-assessment, rent and expenses from similar properties are combined into one single figure.

Similar properties may include the following, depending on your portfolio:

- UK rentals – properties you're letting out in the UK
- Overseas rentals – properties you're letting out abroad on long leases

# Maximising Your Income

## Marriage Allowance

Married couples and those in civil partnerships are eligible for a tax allowance if one person is earning less than £12,500 and the other person pays income tax at the basic rate (if they earn between £12,500 and £50,000). Couples can receive the married tax allowance if they are living abroad or are receiving a pension. The marriage allowance can only be claimed by the person with the lowest income.

## Setting up a partnership

If you're part of a couple and you both pay the basic rate of tax, you may consider setting up a business partnership to share responsibility for the bills, profits and losses your lettings make.

The benefit of setting up a partnership is that each partner only pays tax on their share – meaning you can prevent one person from moving into the higher rate of income tax.

If you're thinking of setting up a partnership, you will need to choose a name for the business and nominate a partner to be responsible for sending the business' tax returns – the nominate partner will also be required to register with HMRC. Both partners will also be required to send their self-assessment tax returns and pay the relevant rate of income tax.



## Setting up a private limited company

Setting up a private limited company may be beneficial if you're expecting to earn over £150,000 and pay a higher rate of income tax (45%) from your lettings.

Private limited companies are separate from those who run them – this includes having separate finances.

What's advantageous about setting up a private limited company is you can pay yourself and your partner a salary within the basic rate of income tax and, if eligible, have your partner claim marriage allowance. You can then split the rest of the profits between the shareholders as dividends.

It is also possible to buy, sell and transfer shares, so you could include members of your family or friends in the company – this is a way of mitigating paying income tax at higher rates.

Before setting up a private limited company, you should seek professional advice. You'll need to choose a company name, registered address, appoint directors and a secretary and detail the terms for running the company in a memorandum and articles of association.

# Releasing Your Property

## Capital Gains Tax

If you're currently a landlord, but may consider selling your rental property in the future you should consider the impact of capital gains tax. Capital gains tax applies when you sell a property that is not your only or main home – the tax payable is calculated based on the profit you make when selling after deducting costs of sale and purchase, including the LTT paid on the purchase. If you set up a private limited company, different taxes will apply to the sale of property held in the company.

## Inheritance Tax

Another factor to consider is inheritance tax – everything in your estate will be taxed above the tax-free threshold of £325,000 for an individual – this tax threshold increases to £500,000 if your estate includes your main residence and is left to your children. If you currently rent out multiple properties, you may wish to consider an inheritance tax strategy to minimise the tax liability.

## Your Lettings Experts

We're here to help you through the whole process of letting, whether it's assistance in marketing your property, finding the ideal tenant or moving them in.

Our fully managed service and let and rent collect service customers are also able to use our exclusive tax service where we can provide a summary of all income and expenditure transactions we have recorded.

**Contact your local branch to see how we can help you.**



**We hope you found our tax guide useful**

**This information is meant for guidance purposes only and should not be considered a substitution for professional advice.**

**We recommend speaking to a trained tax professional, such as an accountant or HMRC.**

Rates quoted are applicable for tax year 2020/21.
Information correct at the time of publishing October 2020.

johnfrancis.co.uk