GUIDA ACCOUNTANCY

Five Top Tax Tips for Landlords

PRACTICAL ADVICE TO STAY TAX-SMART AND STRESS-FREE.

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WELCOME TO GUIDA ACCOUNTANCY

My name is **John Lawrence.**

My aim is to transform the outdated stereotype of the grey-haired man in the grey suit Accountant (apart from the grey hair that is!)

To my clients I am someone in their corner, a spare pair of hands with a brain attached, a silent partner, their outsourced Chief Financial Officer.

Hello, **I am Ida,** and I am Head of Mindfulness and Wellbeing.

My first career choice was to train as a Guide Dog but I was bitten by another dog and had to leave the training program and be rehomed. So, on to my second career.

My job here at Guida Accountancy is to provide inspiration and joy as well as maintaining dad's physical and mental wellbeing.

Five Top Tax Tips for Landlords

Introduction

Being a Landlord means reporting to HMRC. So how do you keep the taxman happy whilst minimising your tax liability?

1 Ownership

Owners may consider setting their rental portfolio up as a limited company. This gives the ability to time personal income to minimise personal tax. This is not for everyone and an accountant's advice should be taken. Where there is joint ownership split the rental income so that most of it goes to the lower rate taxpayer. Property income is automatically split 50:50 unless HMRC are advised otherwise.

Purchase rental property as tenants in common rather than joint tenants and give the majority of the beneficial ownership to the lower earner (Solicitor and Accountant can advise on the best split). For property already owned you may be able to change the beneficial ownership, but care should be taken and other factors should be considered before taking this step.

2 Keep a Separate Bank Account

Keeping a separate account will help you when it comes to completing your tax return and make sure that you claim for every expense you have made on your buy-to-let property. By putting all of your spending through one, separate account you will ensure you don't forget anything.

As long as an expense is legitimately for the sole purpose of your rental property then claim it. This will also help you monitor how well your portfolio is performing, just by the amount of money in the Bank! Keep receipts safely and in a sensible order. Remember, if HMRC raise an enquiry you will need these as evidence and you could end up paying more tax if you cannot support your claim.

Five Top Tax Tips for Landlords

3 Car mileage and use of home

If you use your own car to make journeys for the sole purpose of dealing with your rental property then you can claim the mileage allowance. The rate is 45p per mile for the first 10,000 miles and 25p thereafter. This applies to trips to the property to undertake maintenance, visits to a letting agency, even to the diy store. Keep a good record of the date, where the journey was to, the number of miles and the reason. This is important as HMRC can ask for evidence.

Provided you use your home to keep and maintain the rental records then you can claim for the use of your home as an office. The statutory rate is £4 per week. A total of £208 per year, which for a 40% taxpayer means a saving of £83. This is a statutory allowance so no proof of expenditure is required.

4 Claim Void Period Expenses

If there is a period when the property is untenanted you may be liable for such costs as council tax, utility bills and insurance. These are all allowable costs for tax purposes so make sure you include them in your expenses. This also applies to expenses incurred between purchase and initial rental, when work may have been done to bring the property into a rentable condition.

Care should be taken here though, as the nature of the expense may mean it would be treated as capital (improvement) rather than revenue (maintenance). Only revenue expenditure can be claimed on your tax return.

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5 Capital Gains Tax (CGT)

Of course, income tax is not the only tax consideration. Hopefully your property will increase in value, and that raises the possibility of a capital gains tax liability on sale. So, a few tips to help minimise this liability: -

- **Record Your Purchase Costs**

  Keep a record of all capital costs. The cost of purchase including Solicitors fees, Valuation fees and Stamp Duty.

- **Track Property Improvements**

  Keep records of the cost of improvements, perhaps an extension or change of layout. These are allowable deductions against CGT.

- **Time Property Sales Carefully**

  Time the sales to maximise the annual exemption for CGT, particularly if you have more than one property. Selling 2 properties in separate tax years will take advantage of 2 annual exemptions rather than just one.

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Common Mistakes

Tax returns are not necessarily something a new Landlord (or even an experienced one) is used to dealing with. There are common mistakes made. Tax legislation changes so frequently, especially so for property income in recent years. Here are a few pitfalls to be aware of: -

- Sounds obvious, but make sure all tax returns are submitted and all payments are made on time. This avoids automatic penalties, starting at £100.
- Only the interest element of a mortgage is in any way claimable. From 2020/21 this is no longer treated as an expense but as a tax credit at a maximum rate of 20%.
- Wear and tear allowance of 10% is no longer allowable. If you let furnished property you can claim the cost of replacement furnishings as an expense. For example, buying a new fridge to replace an old one is allowable but buying a new fridge, when there has been no fridge before, is not.
- A tax return must be submitted even if the property has made a loss. Losses can be carried forward against future profits so, not only is it a legal requirement, it is also beneficial to do so.
- The distinction between capital (improvement works) and revenue (maintenance costs) expenditure can be difficult to assess. Take advice on this if unsure.

Always speak to an accountant if you are unsure or need advice on tax treatment.

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Conclusion

I believe in talking to my clients to help them understand the numbers in their business. Numbers are my thing.

They may not be yours; I know and understand they are not everybody's cup of tea.

But knowing your numbers is vital if you want a successful business. So, it's essential to be able to talk to someone you know and trust who can help demystify your numbers for you.

That's where I come in...

If you want an accountant that you are happy to talk to, please feel free to arrange a complimentary, no-obligation 'DISCOVERY' conversation.

Let me (and Ida!) work with you to make your numbers work for you.

Simply click below to book in your free call.

Book A Call

Other Resources

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