Broadcast

FACTSHEET: TAX PLANNING FOR LANDLORDS

SPECIAL ISSUE

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LANDLORDS TAX PLANNING - OPPORTUNITIES TO SAVE TAX AND INCREASE PORTFOLIO NET WORTH

Some of the ideas shared in the following check list may provide you with ideas for tax saving opportunities if implemented. This year, more than at any previous time, we need to take advantage of savings as the COVID virus continues to wreak havoc on the UK economy.

Many landlords have seen significant reductions in rental income during the past year and those that have significant loan commitments have been faced with selling property to reduce exposure.

This short check list highlights tax planning opportunities that you may be able to take advantage of before the current tax year ends 5 April 2021.

Actions to take now:

- Review the list
- Highlight those items that would seem to have relevance
- Call us so we can discuss what needs to be done to secure any tax saving benefits before 5 April

Landlords' Tax Planning Check List

❑ Now that finance charges, mortgage interest etc, are no longer treated as a deduction for tax purposes – instead, they qualify for a basic rate tax credit – and with the pressures created by COVID disruption, this may be an opportune time to consider reducing finance costs especially if your rental income is subject to income tax at the higher rates. This may involve refinancing or selling highly geared properties.

- ❑ Review any replacement furniture and equipment to ensure you will qualify for replacement furniture relief (RFR). Remember, if you sold the replaced item(s) you must deduct any proceeds of sale when calculating your entitlement to RFR. This relief only applies to the replacement of existing items not the purchase of new items.
- ❑ If you are buying a buy-to-let residential property consider allocating a nominal amount in the contract for any second hand furniture left in the property. In this way, if you subsequently replace the furniture, you can write off all the expenditure under the RFR. If you do not allocate sums in the contract you will have no legal claim to the furniture and you will not be able to claim RFR when you replace it. This strategy will also save you stamp duty as this is not applied to the cost of furniture.
- ❑ Consider making a joint property election with your spouse – if you jointly own let property - to vary the split of any rental income in a proportion other than 50:50. This is a useful device to allocate income to the spouse with spare allowances or that is taxed at lower income tax rates.
- ❑ In certain circumstances it may be beneficial to incorporate your property business. However, great care should be taken in planning to see if this is feasible and if stamp duty and CGT on-costs can be legitimately avoided.
- ❑ Make sure that you amend your Will if you have acquired or disposed of rental properties since you last reviewed your Will.
- ❑ Consider employing family members to assist with the management of your property interests. If there are sound commercial reasons for doing this, you should be able to make a successful claim against your tax. In this way you can reduce your exposure to higher rate tax and provide your family with additional income subject to deduction of tax at lower rates.
- ❑ Transfers of property (or a part interest) between spouses are generally free of CGT and IHT charges. This may enable you to direct rental profits into the hands of the spouse taxed at lower rates. Planning is key as in certain circumstances this may trigger a stamp duty charge.
- ❑ If you declare rental profits on your self-assessment tax return you will be subject to income tax on profits declared. You may have made your first payment on account for 2020-21 that was due 31 January 2021. This payment is an estimate based on property profits earned in 2019-20. Most landlords will have suffered a reduction in the current tax year, 2020-21, and can therefore reduce any payments on account they make for that year – payments on account for 2020-21 are payable 31 January and 31 July 2021. If your rental profits have reduced 2020-21 compared to 2019-20, contact us now so we can make a formal application to reduce payments on account for 2020-21. We will need a realistic estimate of your rents received and costs to do this.
- ❑ Finally, if you do dispose of residential property that forms part of your portfolio and you make a chargeable gain on the disposal this will be subject to a capital gains tax (CGT) charge in the tax year you make the disposal. Normally, these gains would form part of your self-assessment. Unfortunately, disposals of residential property – that are not your private residence - are now subject to new rules. You are required to declare disposals online within 30 days of completing the sale and pay any CGT due in the same time period. This applies to all sales of affected property after 5 April 2020.

Act Now
Many of the suggestions we have made in the above check lists time-out – are no longer effective – unless you act before 6 April 2021 (or your financial year end date if different).

If you have spotted any item on our check list that strike a chord, call now so we can discuss your options.

How We Can Help
For more information regarding any issues raised in this Broadcast then as ever, please contact us on **01753 888211** or email **info@nhllp.com**