

TAX PLANNING ROADMAP FOR PROPERTY OWNERS

Property Owners Interim Planning Review 2024-25

Property Business Tax Review 2024-25

A major change in the way that property income is taxed was the gradual reduction in the amount of tax relief that landlords of residential property could claim for finance charges: this includes mortgage interest. Accordingly, finance charges are now disallowed as a business expense and are replaced by a basic rate tax credit.

This change has impacted tax liabilities since 2017-18. Most at risk are buy-to-let, residential property owners who have acquired property by maximising the use of cheap mortgages. In accountant-speak they are highly geared. This means that total borrowings are not much lower than the cost or market value of the properties they own.

There are strategies that can be used to lessen the impact of these changes, ranging at one extreme to selling properties to reduce debt, or incorporating property businesses. Neither option is for the faint hearted.

We have produced two check lists for landlords that may be of some help.

First, a list of the "red tape" that landlords need to comply with. It covers most of the main points. Secondly, a list of tax and related strategic options that landlords should consider prior to 6 April 2024.

Property Businesses – The Legal Formalities Check List

Documents that you need to maintain, most of these are required by legislation, so penalties may apply if you do not comply:

- Building and landlord insurance
- Gas Safety Certificates
- Energy Performance Certificates
- Electrical Installation Reports and Certificates
- Smoke detectors on each floor
- Carbon monoxide detectors if required
- Copies of tenants' references
- Tenants' agreement to receive communications by email
- Proof that tenant has right to rent in the UK (copy passport for example)
- Household inventory
- Register your property business with HMRC
- Tenants contact details
- Protect deposit within 30 days of receipt
- You are required to respond to written complaints within 14 days of receipt, in writing
- Inform tenants prior to a property inspection

Provide tenant with:

- How to Rent – the checklist for renting in England
- Guarantors Agreement – if required
- Assured Shorthold Tenancy Agreement
- Information regarding Deposit Protection Scheme
- Serve the correct form of notice to end tenancy
- Tenant should sign a list of deductions made from rent deposits

- Return whole or balance of deposit at end of tenancy

Many landlords use the services of letting agencies who would no doubt ensure that you are compliant...

Property Businesses Tax Review

Buy-to-let Checklist 2024-25


- Review any replacement furniture and equipment to ensure you will qualify for the new 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 Land Tax (Land & Building Transaction Tax in Scotland and the Welsh Land Transaction Tax) as this is not applied to the cost of furniture.
- Consider whether to make a joint property election with your spouse 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 your last review.

- 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.

Furnished Holiday Lets 2024-25

If you have properties that qualify as Furnished Holiday Lets (FHL) they are treated as a trade for UK tax purposes. To secure the trading tax benefits FHL owners should work through the following check list before 5 April 2024.

- Check your lettings records to ensure you comply with the minimum occupancy requirements (they are, property must be available for letting for at least 210 days in the current tax year; public letting of a FHL property must be at least 105 days in the year; and longer lets of more than 31 continuous days cannot in total exceed 155 days). If any of these criteria are exceeded FHL status will be lost.
- Averaging elections can be made to even out exceptional breaches of the above occupancy conditions. We can help you consider this option if necessary.
- FHL rental income is considered to be trading income and is potentially subject to VAT. Total FHL income would need to exceed the present VAT registration limit of £85,000. Please contact us if your annual FHL income is approaching this figure.

- 
- Would it be possible to convert present buy-to-let properties into FHL businesses?
 - You can claim capital allowances for items such as furniture equipment and fixtures.
 - The profits count as earnings for pension purposes.

Please contact us if you want more information on any of the issues raised in this update.