Landlord Tax Guide

Let's Get Directly on it!

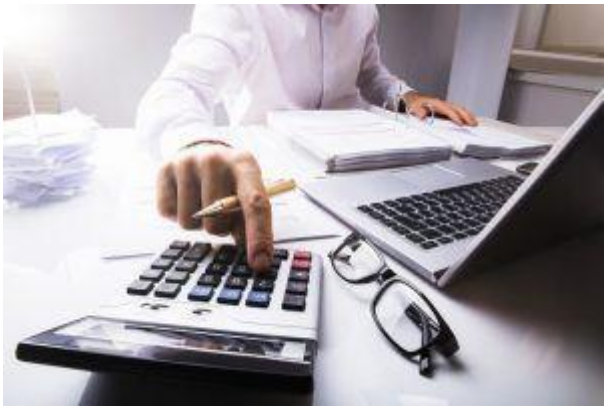
Introduction

Property taxes can be a complicated business, especially for new landlords. In the flurry of activity around getting your property ready to rent, choosing a tenant and planning what you'll do with your anticipated new income, it's all too easy to forget about tax.

Getting on top of capital gains tax, stamp duty, corporation tax, expenses and all the other things landlords must think about can be a minefield. That's where this guide comes in. As much as is humanly possible, we'll tell you what you need to know and do about the taxes you'll pay as a landlord and how to ensure you're paying your fair share.

this guide is meant as a general overview of the current tax landscape. For further, more in-depth personal tax advice tailored to your specific requirements and circumstances, make sure you seek professional advice from a tax specialist.

What taxes do landlords pay?



Let's begin by looking at what property taxes exist, and when they must be paid.
There are three key moments to think about in the property tax lifecycle.
You pay tax when you buy a property, every year you let the property, and later when you sell it.

Stamp Duty

If you buy a property over a certain price in the UK, you are eligible to pay tax. The exact tax you pay and the specific value of the property that triggers it will be different depending on your location and circumstances; you should always seek professional advice for personal tax-related queries.

Property Value	Stamp Duty Rate
Up to £125,000	0%
£125,001 - £250,000	2%
£250,001 - £925,000	5%
£925,001 - £1,500,000	10%
£1,500,001 +	12%

The Stamp Duty Rules

In England and Northern Ireland, individuals normally pay Stamp Duty Land Tax (SDLT) on residential properties worth £125,000 or more, and on non-residential properties or land worth £150,000 or more. You must send an SDLT return to HMRC and pay your SDLT within 14 days of completing the purchase. Your solicitor, agent or conveyancer, if you have one, can do this on your behalf, or you can file a return and pay the tax yourself.

Property buyers in Scotland pay Land and Buildings Transaction Tax (LBTT) on residential properties worth more than £145,000, and on non-residential properties worth more than £150,000. Scotland also has an Additional Dwelling Supplement, payable on properties worth more than £40,000. You pay this if you already own a residential property and buy another. All LBTT is paid to Revenue Scotland through an online portal.

Property buyers in Wales pay Land Transaction Tax (LTT) on residential properties worth more than £250,000, and on non-residential properties worth more than £225,000. As in Scotland, there are additional charges for residential properties worth more than £40,000 if you already own a residential property and are buying another. You must send an LTT return to the Welsh Revenue Authority and pay your LTT within 30 days of completing the purchase. Your solicitor, agent or conveyancer can do this on your behalf, or you can file a return and pay the tax yourself.

These are only the basic rules. If you're buying for the first time, the thresholds for paying stamp duty are generally higher, so you may not have to pay. If you're buying to let, stamp duty rates are tiered and start at a lower value than those for other home buyers. In England, the below table shows the regular stamp duty rates for buy to let properties.

Property price	Buy to let stamp duty rate
£0 – £40,000*	0%
£0 – £125,000**	3%
£125,001 – £250,000	5%
£250,001 – £925,000	8%
£925,001 – £ 1,500,000	13%
£ 1,500,001 +	15%

Rates also apply to second homes and holiday homes. *If total property price is £40,000 or less. **If total property price is more than £40,000.

While you're letting property – income tax

If you make money from letting a property, you may have to complete a self-assessment tax return, depending on your total income.

The rate of income tax you pay varies by income. In the 2021 Budget, Chancellor Rishi Sunak announced a small rise in April 2021, after which income tax thresholds will be frozen until 2026.

From April 2021, the personal allowance is set at £12,570. This means you pay the basic rate – 20 per cent of your income – on anything after that income, up to and including £50,270. The higher rate of 40 per cent tax applies to incomes over £50,270 – and if you make more than £150,000, you pay the additional rate of 45 per cent.

In Scotland, for 2021/22, you pay no income tax if you earn less than £12,570. From £12,570 to £14,667 you pay the starter rate of 19 per cent, while those earning between £14,668 and £25,296 pay the Scottish basic rate of 20 per cent.

Those who earn £25,297 to £43,662 pay an intermediate rate of 21 per cent.

The higher rate of 40 per cent tax will apply to incomes over £43,662, while the top rate of 46 per cent will remain the same at £150,000.

As a landlord, you're entitled to a £1,000 tax-free property allowance: if you make less than £1,000 a year from letting property, you don't need to tell HMRC. If you are self-employed as a landlord – in other words, you don't run a limited company and you file a self-assessment tax return – you're also entitled to a £1,000 tax-free trading allowance.

If you make between £1,000 and £2,500 a year from letting property, you must make HMRC aware of the fact in order to pay tax.

If you make between £2,500 and £9,999 after allowable expenses, or over £10,000 before allowable expenses, you will need to make a self-assessment tax return and may have to pay income tax.

If you're filling out a paper form to make your self-assessment tax return, you must do this by 31 October each year.

However, remember that from 6 April 2023, the government's Making Tax Digital programme comes into effect for self-employed landlords and those with property or business income over £10,000. From April 2021, all VAT-registered businesses will be required to follow Making Tax Digital rules.

You may also have to pay class 2 National Insurance, if you're running a business and:

- You make more than £6,475 a year from letting property
- Being a landlord is your main job
- You rent out more than one property
- You're buying new properties to let out

You can also choose to pay National Insurance payments even if you're making less than £6,475 a year from letting property, to keep your state pension topped up.

When you sell property - capital gains tax

When you sell a property that's not your home – a house you bought, renovated, and let out for instance – and make a profit, you may be liable for capital gains tax. You may also be liable to pay capital gains tax on inherited property.

From 6 April 2020, the annual exempt amount for individuals and personal representatives increased from £12,000 to £12,300. For trustees of settlements, the annual exempt amount increased to £6,150.

Many had feared capital gains tax would increase by up to 40 per cent for higher taxpayers in the 2021 Budget, but this did not happen.

HMRC provides a tax calculator for working out how much capital gains tax you have to pay, if any.

The calculation is based on the gain – meaning the market value of your property, minus any estate agents' fees, solicitors' fees, and the costs of major improvement works (building an extension would be included in the calculation; redecorating would not).
The level of capital gains tax differs for basic rate taxpayers, but it is currently set at 28 per cent for higher and additional rate taxpayers.

UK residents now must pay within 30 days of completing the sale. They were previously able to wait until the end of the tax year to include it in their annual tax return. You may have heard of 'lettings relief'. This was a reduction in capital gains tax for landlords who lived in the properties they let out. From April 2020, lettings relief is only available for live-in landlords who are in shared occupation with their tenants.

You may still qualify for private residence relief, however. This is a percentage reduction in capital gains tax, based on the number of years you lived in a property plus the last nine months before you sold it.

Let's say you lived in a property for five years, then let it out for 15. You would get private residence relief for those first five years, plus the last nine months you rented it out. Five years and nine months is 28.7 per cent of the time you owned the property.

You'd therefore gain private residence relief on 28.7 per cent of the gain you make when you sell the property.

Extra tax savings for married couples

Tax rules concerning married couples are complicated but can enable individuals to shift their assets between each other in a legal and above-board way to reduce their tax bill.

Here we will provide an overview of some of the ways in which a couple can do this. However, given the particularly complex nature of tax relating to married couples it may be advisable to consult a tax professional to carry out a full review of your specific situation.

If one of you doesn't pay income tax: Marriage Allowance tax update

Marriage Allowance can work for couples where one person is earning less than the personal allowance, (which increased from £12,500 in 2019/20 to £12,570 from April 2021) and the other person pays income tax at the basic rate, which from April 2021 usually means their income is between £12,570 and £50,270. The marriage tax allowance stands at £1,250. This means the potential tax saving from the higher tax earner's bill is up to £250.

So, to benefit from Marriage Allowance, you must be married to (or in a civil partnership with) someone who does not pay income tax, or whose income is below £12,570 a year. You must also be a basic rate taxpayer. It doesn't matter if you live abroad or are receiving a pension – as long as you have a personal allowance for income tax, you can claim Marriage Allowance.

The person with the lowest income needs to claim Marriage Allowance online. It can take up to two months to process the claim. The person with the higher income will get their new personal allowance when they send in their next self-assessment tax return.

If you both pay income tax: setting up a partnership

If you're both basic rate taxpayers, one option is to set up a business partnership. Business partners share responsibility for any losses the business makes, any bills the business incurs, and the profits from the business – but each partner only pays tax on their share. Setting up a partnership means you can avoid one person moving into the higher rate for income tax.

Example

As a couple, you earn £50,000 from rent. If this is one person's income, they would pay the higher rate of income tax – 40 per cent. 40 per cent of £50,000 means a £20,000 tax bill.If this rent is paid to a partnership, and each partner has a 50 per cent share, each partner receives £25,000 in rental income. That only qualifies for the basic rate of income tax – 20 per cent. 20 per cent of £25,000 each is £5,000 each.

The couple's total tax bill is £10,000. However if the share of the property is not equal then percentage payments and the rules around it will differ. We advise you contact a property tax professional to assess your percentage split.

You'll need to choose a name for your business (it can't be too similar to an existing company's name), and choose a 'nominated partner' who will be responsible for sending the tax return for the business. The nominated partner must register the partnership with HMRC.

Both members of a partnership must be registered with HMRC. Both partners must send their own self-assessment tax returns and pay income tax.

It's a good idea to set up as a limited liability partnership (LLP). Partners in an LLP aren't personally liable for debts the business can't pay – this keeps you safer in the event that your business struggles in future.

Managing your liability

Understanding your own tax liability will help you to make the most out of your property assets.

As we've discussed, you pay tax when buying, letting or selling a property; you become liable for higher tax brackets based on the value of the property and your overall income.

Managing your liability is a matter of knowing exactly what you can and can't claim as expenses.

While there could be further buy-to-let tax moves, keeping accurate records of your costs, staying abreast of changes and always running your decisions past a property tax expert will leave you on the right side of HMRC.