lettersofdistinction
Residential Lettings in York

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 stamp duty, 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 September 2021.

Buying Your Property

Stamp Duty

Stamp duty, or to give it its full name, stamp duty land tax (SDLT), is charged when you buy a property or piece of land – regardless of whether it's residential or non-residential and whether or not you are a first-time buyer.

Stamp duty charges were temporarily changed in July 2020 which meant that anyone who purchased a main home under £500,000 that completed before 30th June 2021 paid no SDLT - saving thousands of pounds.

From October 2021, stamp duty returned to normal levels, with the point at which you start paying set at £125,000.

If you purchase a second home to rent out, you are required to pay an additional 3% SDLT on top of the main rate bands. This also only applies to properties above a £125,000 purchase price.

Better still, if you're purchasing a property for under £40,000, e.g. as a fixer-upper, there's no stamp duty to pay at all.

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 – you won't pay any income tax if your total taxable income, including rental income, is less than the tax-free Personal Allowance per year. If your taxable income is over the Personal Allowance (£12,570 from April 2021) you'll pay the following rates of income tax:

- £12,570 - £50,270 = 20% of your income
- £50,271 - £150,000 = 40% of your income
- £150,000 + = 45% of your income (and the Personal Allowance goes down by £1 for every £2 of income above the £100,000 limit)

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 £50,270 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, for example, you earned £60,000 profit from renting and this was one person's income, they would pay basic rate income tax (20%) on the first £37,500 and the higher rate of income tax (40%) on the profits over £37,500 – this would mean the person would incur a £16,500 tax bill.

If the £60,000 was paid into a partnership and each partner had a 50% share, they would each receive £30,000 and qualify for the basic rate of income tax (20%) – meaning each person would pay 20% of £30,000 which is only £6,000 – a total tax saving of £4,500.

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.

Please note: higher rates of SDLT apply to a property purchased via a company and if the property is valued at more than £500,000, an annual tax charge is payable based on the property value.

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 stamp duty 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.

For all landlords where we process rent we can provide you with an annual statement of income and expenditure to help your tax return situation.

Further details of the support we can provide is confirmed within our Terms of Business.

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

We hope you found our tax guide useful

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