Taxation of Let Property – a brief guide.

Written by Taxwriter Ltd

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Introduction

Buy-to-Let is an increasingly popular investment tool. Low interest rates, rental income, poor value pensions and flexibility of investment are all factors that have made buy-to-let an attractive option when compared to other investments.

When making a buy-to-let investment decision landlords need to be aware of the tax issues and obligations facing them not only as property investors but also as individuals with other businesses, careers and investments. Many factors can affect the returns in both capital and income and it is important to start with the right purchasing structure and to make use of all the available reliefs at the appropriate times.

By providing landlord clients with a pro-active service, combined with a partnership built on trust and understanding of your individual business needs, we are confident that we will maximise your rental returns by minimising your tax liabilities.

Tax is an increasingly complex area and it is essential that landlords seek advice from a specialist taxation and accountancy advisor. This will ensure a strategy is devised which best suits your individual needs.

This booklet does not cover every tax aspect of buy-to-let. It sets down the basics and provides pointers for tax saving ideas. To minimise your own tax liabilities it is essential to take tax advise that is tailored to your individual situation.

1. What is a property investment business?

As an owner of a buy-to-let property you are normally taxed on the annual profits you make from letting your property under the special tax rules for UK property income.

The income tax rules for property income treat a letting business much like any other business, such as say a retail shop, with similar rules for deducting expenses and accounting for receipts (see chapter 3). Some special tax rules apply when you let property as furnished holiday accommodation (see chapter 6), and different tax rates and reliefs apply if you let through a company (see chapter 4). There are a number of differences between a property investment business and a normal trade, which can be advantageous:

- Your annual profits are not subject to national insurance;
- Any profit made on disposal of a property is taxed as a capital gain so your personal annual exemption can be deducted; (see chapter 7).
- A residential letting business does not have to be VAT registered (see chapter 10).

There are also disadvantages of the property income tax rules:

- Losses cannot generally be set against other income;
- Expenditure connected with aborted sales or purchases of property is not deductible;
- Sales of property do not attract entrepreneurs' relief unless it is sold in association with the disposal of a business;
- The value of the properties will be subject to inheritance tax on death;
- It is difficult to transfer the business without high tax charges, as roll-over relief does not apply to the value of the property.

A typical property investment business will hold the properties for the long term and cover the expenses with the rents received. If you prefer to hold your properties for a shorter period, with a view to creating a quick profit on sale after refurbishment or development, your business is likely to be taxed as a trade rather than as property income. This can have a number of tax advantages and disadvantages, (see chapter **5**).

You do not have a choice as to whether your property business is taxed as property income or a trade. The facts of how you make your money determine the tax treatment.

What is property income?
In income tax terms 'property income' is the rents you are due to receive less the expenses that can be set against those rents for tax purposes (see chapter **3**). It does not include the profit you make when selling the property, and it dopes not take into account the costs of buying, selling or improving the property.

All of the income you receive from your property in the UK, both residential and commercial, is combined and taxed as one business. So a loss on one property can be relieved against profits made from another in the same tax year. Overseas property is treated as a separate business (see chapter 9).

Deposits collected from tenants are not part of your property income unless they become non-returnable under the tenancy agreement. Only include the retained deposit in your property business accounts when the funds are used to cover the costs the deposit was designed to prevent, such as renewal of furniture, repairs or legal fees.

Tip
Don't forget to exclude the deposits you receive from new tenants when you tot up your rental income for your tax return.

When does the rental business start or finish?
It is important to determine when your rental business starts or finishes, as the costs you incur outside this period may not be tax deductible, (but see pre-letting expenditure below).

Start date
Your property business starts as soon as you have acquired a property *and* it is available for letting. This means it is in a condition where it can be let, subject to cleaning, furnishing and drawing up tenancy agreements and inventories. If the property is in such a poor state that it cannot be let, it cannot be treated as part of your property rental business.

Pre-letting expenditure
Pre-letting expenses, such as advertising or repairs, can be deducted from the rents you receive in the first tax year if two conditions are met:
- the expenses must be classified as revenue costs rather than capital and
- the costs must be incurred within seven years of the date on which you first let the property.

The expenses connected with renovating a property to bring it into a habitable condition are capital costs so are not deductible. However, if the property is a flat located over business premises, which is then let for a modest amount, the renovation costs may qualify for the special *flats over commercial premises* capital allowance (see chapter 12).

The Tax Inspector may query hefty repair and maintenance costs incurred before letting began. To get a deduction for these costs you need to show that the property was in a fit state to be let before the sprucing-up began. Whether you could let it at a rent acceptable to you is another matter.

Example
You buy a fairly run-down property that has been let as student accommodation, but you would like to let it in the more up market sector as family accommodation. Before you attempt to let the property you have it deep-cleaned, decorated, and get minor repair jobs done such as replacing locks. This work should all qualify as revenue expenses as the property was in a fit state to let before the work was done, as it had been let immediately before you purchased it. If you undertook more extensive works before letting, such as removing internal walls and refitting bathrooms and kitchens, the Tax Inspector may well disallow the expenditure as improvement costs.

Finish date
Your property letting business finishes when you no longer have any properties available for rent, and you are not looking for tenants. This may be because you have decided to occupy the last property yourself, or you are keeping the property empty prior to sale.

2. Who is taxed and when is the tax payable?

Who?
The person or persons who own the property are taxed on the property income, in relation to the proportion of the property they own. The tax law assumes that a married couple (or civil partners) share the income from a jointly held property equally, i.e. 50:50 what ever their actual ownership, unless an election on form 17 has been made (see chapter **4**). If you own a property jointly with your spouse, and have not made this election, you should each report half the income and expenses on your tax return.

Warning
A couple can only divide the rental income from a property between them if they both actually own a share in the let property, see chapter **4**.

Tip
A married couple (or civil partners) can transfer a property from the sole ownership of the higher earner to the sole ownership of the lower earner, so the rental income is taxed at a lower rate. There is no capital gains tax to pay on such a transfer, but some Stamp Duty Land Tax may be due if the property is mortgaged.

Tax return
If you hold properties in your own name all of the income and expenses from those let properties should be shown on the land and property pages, of your personal self-assessment tax return. This applies even if you don't make an annual profit from the letting. If you let property located overseas, the total rents and expenses must go on the foreign income pages of your personal tax return.

Warning
HM Revenue and Customs (HMRC) have started to write to all landlords who may not have declared the income or gains from their properties on their personal tax returns. These letters ask for income and expenses from property for the previous six years. If you receive such a letter, you are not obliged to reply, but if you don't reply you may face a formal tax investigation.

If you let properties through a company, the profits or losses from that letting business must be reported on the company's annual corporation tax return.

Record keeping
As a landlord you are required to maintain complete records of all expenses incurred, and the income received from your let properties. This means not only hanging on to every relevant receipt, but also keeping details of any personal assets you used for the letting business. For instance note down the date and distance of all journeys you make concerning your property business, the time spent using your own computer, and the portion of your own home used to store or process related paperwork.

Deposits should be recorded separately, with precise dates of when they were received and returned. Only non-returnable deposits should be included as income in your property business accounts.

Tip
Keep a separate bank account for your property letting business and pay all the rents into this account and all the expenditure out of it. If the Tax Inspector ever asks to you to prove the figures in your accounts it makes answering his questions much easier if the costs are not mixed up with your personal expenditure.

Tip
If you use an internet-only bank account remember to print off your bank statements regularly, at least once a quarter, as these statements may contain the only record of rents paid into that account by electronic means.

All the records relating to your property business must be kept for five years after the tax return filing date. So documents relating to the year to 5 April 2007 should be retained until 31 January 2013. Sale and purchase contracts and receipts relating to property improvements should ideally be kept for six years after the end of the tax year in which the property is sold, just in case the HMRC ask about the capital gain shown on your tax return.

Warning
If you fail to retain tax-related paperwork you could be charged a penalty of up to £3,000.

When is the tax payable?
Self-assessment
Under the self-assessment system the income tax you are due to pay on all your different types of income is added together, so there is no separate payment date just for your property income. Any tax already deducted, say under PAYE, or from your bank on interest, is set against this total and the balance is paid in up to three instalments:

A. 31 January within the tax year;
B. 31 July after the end of the tax year; and
C. 31 January after the end of the tax year.

The instalments A and B are known as payments on account, and are estimated amounts based on half the total tax you paid for the previous tax year. They are only due if the amount of tax you had to pay as for the previous tax year exceeded £500 (£1,000 from 2009), and was not collected under PAYE. If the current year's tax bill is higher than the previous year's total, you must pay the extra tax at instalment C.

You can see that instalment C coincides with the first instalment A, for the next tax year. This means that when you start your property rental business, you may have to pay 150% of the annual tax due on 31 January following the tax year in which your letting commences. This is because you won't have paid any tax on account (instalments A and B) within the tax year, as in the previous tax year you had no property income.

Tip
Put aside one third of your profit from your properties in a savings account each month, so when the income tax bill arrives you have the funds to hand.

PAYE
The tax due on your rental income can be collected through your PAYE code for the next tax year. After you submit your Tax Return showing taxable property income HMRC may automatically adjust your PAYE code so the tax due on rental income is collected directly from your monthly salary. Using this tax collection method the Government gets your money in monthly instalments and you lose the cash flow advantage of paying the tax in three stages (see above). However using the PAYE system to pay tax on your rental income is *optional*, if you don't want this to happen ring the HMRC office that issued the PAYE code and object. They must then alter your PAYE code back to its original form.

Paying the tax on your property income through PAYE can mean you don't have to fill in a self-assessment tax return form. This will save you time and money. You will pay the same total amount of tax whether or not you pay the tax due on your property income directly out of your earned income, under PAYE or over three instalments under self-assessment. However if you have more than one let property, or frequently changing tenants, you should complete a tax return each year to make sure to receive full tax relief for all the eligible expenses

Loss
If the expenses connected with your let properties exceed the rents received in the tax year, you have a loss, and pay no tax on your property income for that year. The loss does

not reduce the tax you pay on your other income for the same year. If in the following tax year, your rents exceed expenses, the previous year's loss will reduce the tax payable.

If the loss in your property accounts is created by capital allowances on equipment used for the property trade, or exceptionally when allowances have been claimed for renovating empty flats or business premises (see chapter **13**), that loss may be set against your other income for the year.

Gain
When you sell your let-property you would expect to make a profit after deducting the purchase cost and selling expenses. You must declare this profit on the capital gains pages of your tax return, and pay capital gains tax if the total exceeds your annual capital gains exemption, (£9,600 for 2008/09).

Corporation tax
If you hold your let properties through a company that company will generally have to pay corporation tax on its profits nine months and one day after its accounting year end. A company can pick any date for its year end, although changing the date frequently is not permitted. Large companies pay corporation tax in four instalments, starting six months into the accounting period. Companies pay tax at different rates to income tax paid by individuals and can claim different tax reliefs (see chapter 4).

3. Tax allowable expenditure

Capital and revenue
You need to sort your expenses into one-off costs such as those connected with buying or selling your let property, known as *capital costs*, and other expenses that are likely to be repeated as tenants change, which are known as *revenue costs*. The capital costs cannot normally be deducted from rents received but the revenue costs can.

Types of revenue costs
The range of items that can be deducted from rents received included the following:

- Legal fees for drawing up tenancy agreements or collecting debts, but not those connected with acquiring properties;
- Letting or managing agents' fees;
- Accountancy fees for drawing up the property business accounts;
- Advertising for tenants;
- Gardening, cleaning, and security services where relevant;
- Motor expenses for travelling to the property (see below);
- Ground rent and service charge for leased property;
- Wear and tear or renewals allowance (if the property is let furnished);
- Maintenance and repairs (see below);
- Buildings and contents insurance;
- Interest paid on loans used to fund the property business (see below);
- Water rates and council tax;
- Heating and lighting costs.

You can only deduct the last two items from the rents received if the letting agreement does not make the tenant responsible for paying these charges. The liability to pay council tax normally falls on the individual residing in the property, but if the property is empty or is a property in multiple occupation (see below), the landlord may be required to pay the council tax. If the tenant pays the council tax or utility bills then you cannot also have a tax deduction for the same costs.

Timing
Revenue costs should generally be deducted from the rents received for the year in which the expense was incurred. However if you have an obligation to pay an expense in the future you can take that future cost into account if it is certain you will have to pay it.

Example
You buy a leasehold flat in a block of flats in January 2007 and let it immediately. The flat management company asks all the owners to contribute to the cost of repairing the fire-escape on the outside of the building. Your share is £2,000 but it is not payable until the work is completed in September 2007. You can include your share of the fire escape repair cost in your property letting accounts for the year to 5 April 2007, as it is certain you will have to pay this cost.

Repairs or improvement
All properties need some maintenance from time to time. Sometimes the work required is quite substantial such as a replacement kitchen units or a new conservatory. HMRC always want to know whether the total amount spent on the property is for repairs or improvements. The difference is that the cost of repairs can be set against the rental income, but an improvement adds to the value of the property so you can only get tax relief for that expense when you sell the building.

It is not the quantum of the cost that determines whether the item is a repair or an improvement, but the nature of the work. If you replace a rotten old wooden conservatory with a new one of the same size built using modern materials, the cost should qualify as a repair. However if the conservatory is a completely new addition to the property it will count as an improvement, and the cost is not deductible against the rents.

The boundary between a repair and an improvement can also move over time. The windows in a house built over 30 years ago are likely to be single glazed, but if you need to replace a window the standard modern equivalent will be a double glazed unit. HMRC used to argue that the double glazing represented an improvement, so would not allow a deduction for the cost of the replacement window. But now they accept landlords can deduct the cost of double glazed windows where they replace single glazed ones.

Tip
If you have not claimed some repair costs in the past as you thought HMRC would argue about them you can go back and amend a tax return up to one year after the deadline for submitting that tax return.

Installing insulation
If you install wall, floor or loft insulation in your let properties you would not normally get a tax deduction for the costs as this work is regarded as a property improvement rather than a repair. However, you can claim a special tax deduction of up to £1,500 of the costs of insulating each residential building, which now includes draught proofing and hot water system insulation. The costs must be incurred before 6 April 2015, but you can do the work and claim the special tax deduction before you let the property for the first time. This tax deduction cannot be claimed where you let the property as furnished holiday lettings (see chapter 6).

Furnished property only
If you let your property furnished, as opposed to unfurnished (see below), you can claim either:

- a wear and tear allowance of 10% of net rents (that is the rental income received less any expenses paid by the landlord which would normally be borne by a tenant); or
- a renewals allowance towards the cost of replacing an asset.

The wear and tear allowance is designed to cover movable items such as furniture, furnishings, electrical goods and kitchenware.

What constitutes 'furnished' depends on the expectations of the tenant. HMRC consider a property as furnished when it is 'fully furnished', as opposed to 'partly furnished'. A partly furnished property would generally include only white goods such as cooker, fridge and washing machine. An unfurnished property would however normally include some minimal furnishings such as carpets, curtains and usually a cooker.

Interest and loans
The rules for getting a tax deduction for interest paid against your rental income are very flexible. It doesn't matter if the interest is paid on a personal loan, a mortgage, or even an overdraft, as long as the cash borrowed is used to fund the letting business in some way.

If you extend the mortgage on your own home to release funds to buy or repair a let property you can set-off the interest on the extended portion of the mortgage against the rents received from the let property. To allow HMRC to see where the capital has come from you need to present a balance sheet for your letting business when you submit the profit or loss figures on your tax return.

Extracting capital
How much capital can you take out of a letting business and still get deduction for the interest? The key is how much the property was worth when it became part of your letting business.

If you remortgage the let property taking out some of the surplus capital that existed when the letting started, you can use that capital as you please. HMRC previously discouraged this action by arguing that as the increased loan was not used to originally buy or improve the property the interest could not be deducted from the rents received. However HMRC now treat a letting business just like any other business as illustrated in their Business Income Manual.

Example
Alan owns a flat which he bought ten years ago for £125,000. He has a mortgage of £80,000 on the property. He has been offered a job abroad and decides to keep his flat and rent it out while he is away. His flat now has a market value of £375,000, when he starts his property renting business.

The opening balance sheet of his rental business shows:

Mortgage	£80,000	Property at market value:	£375,000
Capital account	£295,000		
Total:	£375,000	Total:	375,000

He borrows a further £125,000 on the flat, and withdraws that sum for his own use.
The balance sheet at the end of Year 1 shows:

Mortgage		£205,000	Property at Market Value	£375,000
Capital account brought forward:	£295,000			
Less: capital taken out	£125,000	£170,000		
Total:		£375,000	Total:	£375,000

Although Alan has withdrawn capital from the business the interest on the mortgage loan is allowable in full because it is funding the transfer of the property to the business at its open market value at the time the business started. The capital account is not overdrawn.

As long as you don't take more capital out of the business than the *available capital*, the interest paid on any mortgage or loan used in the letting business will be tax deductible.
Available capital = Value of property when first let - Loans outstanding

All properties let by one person in the UK on the same basis are treated as being part of one property business, so if you have several properties you can add together all the values of the properties as they stood when they were brought into your letting business.

Warning
HMRC do not permit you to revalue a let property while it is part of the letting business and take out the perceived increase in value (due to the revaluation) as surplus capital.

Capital Allowances
You cannot claim capital allowances for furniture and fittings used in a let residential property, as these items are covered by the 10% wear and tear allowance, discussed above. However, you can claim capital allowances for equipment used to run your lettings business and maintain the properties.

So what can you claim? It depends on whether you are responsible for the maintenance or if you outsource that task to the letting agent. Office equipment used predominately for your letting business such can qualify, as can a vehicle used for travelling between the properties and for moving furniture etc. If the properties have gardens, tools such as lawnmowers and hedge trimmers will qualify. External maintenance such as painting and gutter cleaning will inevitably require the use of extendable ladders, which are not cheap.

Capital allowances on equipment purchased after 5 April 2008 are given at 100% of the cost, subject to a cap of £50,000 per year. Equipment can include vans but not cars. Capital allowances for cars are restricted according to the vehicle's price, and from April 2009 will be restricted according to their CO_2 emissions.

Your own time
If you manage the property yourself, and do all the maintenance, rent collecting, and tenant vetting personally, can you deduct an amount from the rents for the cost of your own time?

No, unless you let the property through a company and employ yourself through that company, you cannot deduct the cost of your own time from the rental income you receive.

Other wages
You can deduct wages paid to a member of your family who doesn't own a share in the property but who undertakes property related tasks for you.

This can be a useful way of distributing some of the rental profits around the family without transferring a share in the property to your spouse or partner. If your spouse has no other income, a property managing fee of up to £5,435 (for 2008/09) will be covered by their annual personal allowance, so will be free of tax and national insurance. There is also a tax saving if your spouse pays tax at a lower rate than you do.

Warning
The amount paid to your spouse or family member must reasonable, and the wage must actually be paid, not just accrued in your property business accounts.

So how much is a reasonable wage? Start with a typical fee for a commercial managing agent and discounted it by say 50% as you are not paying an expert, unless your relative happens to be an experienced property agent. Keep records of the time spent by your assistant on the property business, so if HMRC ever ask, you can justify the hourly rate amount paid. If the amounts paid exceed £105 per week you should operate PAYE and prepare payslips.

Your travelling costs
You may well have to make a number of journeys connected with your property letting business, once you have purchased the property. If you manage the property yourself the journeys may be quite frequent as you deal with the coming and going of tenants and check repair work. The cost of these journeys can be set against your rental income, if they are wholly connected with the letting and anything else you did on the same trip, such as personal shopping was merely incidental.

Journeys by public transport are easy to cost, as the price of the ticket, but if you drive in your own vehicle you need to keep accurate mileage records. An easy way to charge your own motor expenses as a property cost is to simply calculate 40p per mile for each property related journey. This is acceptable to HMRC although it may not cover your actual motoring costs. A more elaborate, but fairer method is to keep track of all the costs you

incur to keep your car running in the tax year (TC); repairs, servicing and fuel, and record the total mileage (M) as well as the property related journeys (P), then apply this formula:

$$\text{Cost of property motoring} = TC \times \frac{P}{M}$$

Houses in Multiple Occupation (HMO)
An HMO includes any purpose built building or converted flat whose occupants do not form a single household. From 6 April 2006 an HMO which contains three or more storeys and which is occupied by five or more persons forming two or more households, (i.e. unrelated tenants), must be licensed by the local authority. The fee charged for an HMO licence varies significantly across the country, but the cost of the licence is tax deductible. Additional requirements regarding the health and safety features such as fire exits, may also vary from area to area.

4. How should you own your property?

Jointly held property
Let property can generate a useful income stream for a spouse who has little or no other income to soak up their annual tax-free income tax allowance, or lower tax bands, but you do need to arrange the property ownership correctly to gain the maximum tax advantage.

In England and Wales you can own property as joint tenants when you own an equal interest in the whole property, or as tenants in common where you own separate and identifiable shares, say 10% and 90% of the property. There are different rules for Scottish properties or those owned overseas.

When a legally joined couple (married or civil partners), own property as joint-tenants any rental income must be split equally between them for tax purposes. If the property is held in unequal shares as tenants-in-common the couple can make a declaration on the HMRC form 17 to have the rents taxed in the proportion that they hold the beneficial interest in the property. Without the form 17 declaration a married couple will be taxed on an equal share of the net rents from a jointly owned property. This election is not reversible, so once you have elected to be taxed on your actual share that’s it, unless your actual ownership changes.

If you want to split the rental income in unequal shares instruct your solicitor to acquire the property as tenants-in-common. Where you already own the property as joint tenants it is quite simple to change to tenants in common, but there can be a Stamp Duty Land Tax charge where the property is mortgaged.

A gift of a share in a property between husband and wife (or civil partners), is not subject to capital gains tax, but when the property is sold the capital gain must be split according to the proportional ownership, so think ahead. The transfer will also be potentially exempt from inheritance tax, and becomes fully exempt if you live for seven years after the gift.

Tip
Where a let property is owned by one spouse, a transfer into joint ownership can save income tax on the rents, and capital gains tax on the eventual sale, as both spouses will be able to set their annual capital gains exemption against the capital profit made.

Partnership or LLP
If you let a number of properties an alternative solution is to form a partnership or Limited Liability partnership (LLP) to collect the rents and allocate the net income between you. If you go down this route it is advisable to have a partnership agreement drawn up.

Company
If you have two or more buy-to-let properties it may be worthwhile holding those properties through a limited company. If you already have a trading company that has accumulated some surplus funds, investing in a buy-to-let property can make commercial sense, providing the company can secure a mortgage for the balance of the purchase price.

Before you make the decision to invest the company's money, or to form a new company to hold buy to let properties, some serious number crunching and crystal–ball gazing is required to work out the potential tax savings.

First compare the tax rates and allowances available to you and the company (all rates apply for 2008/09):

- The company will pay corporation tax on its income and gains with no tax free allowances;
- The first £5,435 of your personal income is tax-free (or more if you are aged over 64);
- You also get £9,600 as an annual exemption to set against your capital gains;
- The company will pay tax at 21%, 29.75% or 28% on profits and gains, depending on the total level of profits made by the company;
- You will pay tax on your property business profits at 20% or 40%;
- You will pay tax on capital gains at 18%, after deduction of your annual exemption;
- The company cannot deduct an annual exemption, but it can claim indexation allowance to increase the cost of the property sold by the effect of inflation.

The company's tax rates will also vary if you or your spouse (or civil partner) already control one or more companies. This is because the controlled companies will be treated as associated companies. The profit threshold at which each corporation tax rate starts to apply must be reduced pro rata by the number of associated companies.

Extracting profits from the company in the short term can generate additional corporate and personal tax charges.

If you plan to churn your investment properties every few years to realise the capital profit that has built up, the tax charges are likely to be lower if you hold the properties personally. The company does not have an annual capital gains exemption to reduce the capital gain. However, if you want to hold the investment property for some years until you retire, using a company has some advantages. For example if you sell the company on as a rental business, you may reduce your own capital gains tax and reduce the stamp duty land tax payable by the purchaser.

Lenders are aware of the tax advantages and there are several mortgage products on the market specifically designed for buy-to-let companies. But don't rush into anything, a limited company is a long term commitment and needs careful planning.

As a corporate landlord you may find it easier to open trade accounts with suppliers. If your company is already VAT registered due to the exiting trade, it can reclaim the VAT charged on the property related purchases, as long as the VAT on those items does not average out to more than £625 per month. Residential property is exempt from VAT so great care is needed over VAT returns when the company also makes other sales bearing standard rate VAT.

5. Trading or investment

The property income discussed above is generated by holding and letting your properties for the medium to long term, as a fairly passive investor. If you intend to turn over your properties more frequently, or be more actively involved in managing other people's properties HMRC may say you are actively trading. This may apply to activities such as:

- Managing properties owned by others, collecting rent, etc;
- Buying and selling properties within short periods; or
- Buying and renovating then selling properties.

Example
You buy a dilapidated house for £100,000 and spend £50,000 over four months on repairs and modernisations to the bathroom and kitchen, with the intention of selling the property as soon as possible for a profit. In this situation you are a property developer and the profits you make are trading profits.

If you are considered to be trading, rather than just investing in let property, it will have the following tax consequences:

- All the gains made on selling properties will be subject to income tax (or corporation tax if held within a company);
- You will not be able to set the annual capital gains exemption against the gains made from selling properties (see chapter **7**);
- The PPR exemption and letting exemption will not be available (see chapter **7**);
- National insurance contributions will be due on the profits if this business is run in your own name or through a partnership;
- You may need to register for VAT;
- You will need to register the business with HMRC within three months of commencement;
- Any rents received may be taxed as property income as above, or possibly as incidental trading income.

The tax advantages of having your property business taxed as trade are:

- The value of your business will attract a 100% exemption from inheritance tax as business property (see chapter **8**);
- You can get tax relief for indirect or abortive expenses connected with buying and selling properties;
- You can get tax relief for pension contributions paid out of the income from your property trading business;
- Any losses you make by trading in your own name can be set against your other income;
- If you trade through a company the shares of that company may qualify for entrepreneurs' relief when you sell them.

6. Furnished holiday lettings

There are tax savings (see example below) to be made by letting property as furnished holiday lettings (FHL), but most landlords believe their properties cannot possibly qualify.

The truth is almost any residential property that is let furnished in the UK could qualify as FHL. The property does not have to be in a tourist area but the pattern of lettings must satisfy three conditions:

1. The property must be available for commercial letting as holiday accommodation for at least 140 days a year.
2. It must be actually let as *holiday accommodation* for at least 70 days a year; and
3. It must not normally be let for more a continuous period of more than 31 days to the same tenant in seven months of the year, and those seven months include any months in which it is actually let as holiday accommodation.

"Holiday accommodation" means letting to the general public for periods which do not normally exceed a month, but this can include letting to business people for short periods as well as to tourists. The seven months of short lettings in condition 3 do not have to be a continuous period. The property may be let to one tenant in the other five months of the year.

Advantages of FHL

Furnished holiday lettings attract some special tax reliefs, as if the letting was a trade (but it is not actually a trade):

- Losses from the FHL can be set against other income of the same year, unlike with normal property income losses that must be carried forward to set against property income in future years;
- Unlike gains made on the sale of a other let properties the capital gain made on the disposal of a FHL attracts:
  - entrepreneurs' relief (see example below);
  - can be rolled-over into the purchase of another FHL property or into a different business asset, so no tax is paid until the replacement property is sold; and
  - can be held-over when a FHL property is given away, and no tax is paid until the recipient disposes of the property.

In addition the FHL may qualify for business property relief for inheritance tax.

Disadvantages of FHL
The disadvantages of letting as FHL as opposed to standard six month residential lets are:

- The turnover of tenants is much higher;
- Advertising and cleaning costs are higher;
- HMRC may try to impose the weekly flat rate class 2 NIC on the owners.

Example
Alfred and Bert both purchased identical penthouse apartments to let for £400,000 in April 2002 and sold the same apartments for £615,000 in July 2008. Alfred's apartment was let on standard short-term tenancies of six month duration, while Bert managed to let his apartment as temporary accommodation to business people and tourists for at least 70 days each year and met the other requirements to qualify as furnished holiday lettings.

Bert's property qualifies as a business asset for taper relief due to its use as furnished holiday lettings, and attracts the maximum amount of taper at 75%. Alfred's property is classed as a non-business asset, so will only attract 20% taper for a holding period of six full years. Bert and Alfred's respective capital gains tax bills are calculated as follows:

	Bert's Flat	Alfred's Flat
	£	£
Net sales proceeds	615,000	615,000
Less purchase cost	(400,000)	(400,000)
Less fees and tax on purchase	(15,000)	(15,000)
Net gain	200,000	200,000
entrepreneur's relief 4/9th reduction	(88,889)	
Chargeable gain:	111,111	200,000
Annual exemption for 2008/09	(9600)	(9600)
Taxable gains:	101,511	190400
CGT due at 18%	18,272	34,272

Bert saved tax of £16,000, compared to Alfred, by letting his property in a flexible way so it qualified as furnished holiday lettings in all six tax years.

VAT Trap
VAT at 17.5% will apply to rents from a FHL if the property is advertised as such, and the owner is, or should be, VAT registered. So if the rental income from your FHL properties exceeds £67,000 in 12 months, which is the compulsory VAT registration threshold from 1 April 2008, you must to register for VAT. If you are already VAT registered the FHL rents must have VAT added to them.

7. Capital gains

What is a gain?

When you dispose of a property the *capital gain* is the difference between the purchase price and the sale proceeds less any allowable expenses or exemptions. This gain is liable to capital gains tax at 18% where the disposal is made on or after 6 April 2008. If you give away a property or sell it at a discount, to someone connected with you, the sale proceeds may be deemed to be the market value when calculating the capital gain.

Allowable expenses and exemptions
The following expenses and exemptions may reduce the taxable gain on the disposal of a property:

- Solicitors' and estate agents' fees on the sale and purchase
- Stamp duty land tax paid on purchase
- Cost of improvements
- Your annual exemption (£9,600 in 2008/09)
- Capital losses
- Main residence exemption (see below)

- Lettings relief, if the main residence has also applied – see below)
- Entrepreneurs' relief, if the property was FHL (see above) or sold with a business.

Main residence election
The dilemma with let properties is that you invest in them partly to realise a profit on sale, but that gain is taxed handsomely. The value your own home also increases at a similar rate but the gain is protected from tax by what is known as the principal private residence (PPR), or main residence exemption.

The big advantage of the PPR exemption is that it not only covers the gain made on a property while you live in it but also the gain made in the last three years of ownership, whether or not you still live there. So if you can get a let property classified as your PPR at least three years worth of the gain will be exempt from tax, plus the gain for the period when it actually was your main residence.

If you occupy more than one property, perhaps a town flat and a country home, you can elect which should be treated as your PPR for tax purposes. You can only have one PPR at any one time and you must actually spend some of the year living in at least part of the property you elect to be your PPR. A husband and wife, or civil partners can only have one PPR between them.

A property that is fully let cannot be your PPR. The PPR election must be made within two years of acquiring the second property that becomes your PPR, but once made it can be changed at any time. Living in a property for some time before or after it is let can help your tax position on sale, but the gain on your other home will be exposed to tax while it is not your main residence.

> **Example**
> You buy a flat in Dorset to let on 1 September 2003 but continue to live in your own home in London, and elect for your London house to be your PPR. The flat is let continuously until June 2006 when you decide to spend the summer in the country so move into the Dorset flat on 1 July 2006, and at the same time change your PPR election to make the flat your PPR. You return to live in your London house from 1 October 2006, changing your PPR back to the London property. You sell the Dorset flat on 1 September 2008 making a capital gain of £50,000, which is an average gain of £10,000 per year of ownership.
>
> As the Dorset flat was your PPR for three months in 2006 the last three years worth of gain; £30,000 is exempt from capital gains tax, and the remaining £20,000 of gain is exempt under the letting exemption (see below). If you had not made the PPR election when you bought the flat in September 2003, you would not have been able to alter that election in favour of the flat in July 2006 and alter it back again in October 2006. The full gain of £50,000 made on selling the flat would be subject to capital gains tax.

Letting relief
The capital gains tax you pay on a property sale can be cut if the property has been let as residential accommodation. But this will not apply to a let-property unless you lived in the property, or part of the property, as your main residence either before or during the time it is let out. This tax relief cannot apply to a buy-to-let property that you have never lived in yourself.

The tax relief is restricted to the lower of three amounts:

- the part of the gain exempt because it was used as your main home;
- the gain attributed to the let period; and
- £40,000.

> **Example**
> You buy a small property and occupy it as your main home for one year, then let it for three years. It stands empty for one year before the sale after exactly six years of

ownership. The profit is £90,000 or £15,000 per year of ownership. The taxable gain is calculated:

Capital gain before tax relief:	£90,000
Exemption for main home for 1 year, plus last 3 years of ownership:	£60,000
Relief for letting restricted to lower of £60,000, 3 x £15,000 and £40,000:	£40,000
Net gain chargeable:	Nil

Entrepreneurs' relief
This was a promoted as a replacement for taper relief, which was withdrawn on 5 April 2008. It reduces the effective tax rate payable on a capital gain from 18% to 10%, before deducting losses or the annual exemption, but it will generally only apply where the property was used for a trade. This will restrict the use of entrepreneurs' relief for property owners to the following circumstances:

- Where the property has been let has furnished holiday accommodation (see above)
- Where the property is sold as part of a trading business, which does not include a property letting business, (other than FHL).

Questions to ask to check you have included all reliefs
When you sell a residential let property ask yourself these questions to make sure you have deducted all the available reliefs and taken advantage of all exemptions due to you.

1. When exactly were contracts exchanged for the sale of the property? It is the exchange date when the agreement to sell the property become unconditional, not the completion date, that determines which tax year the disposal falls into. A different tax year may affect the tax rate charge on the gain and the reliefs available.

2. What were the costs of the sale and purchase, including stamp duty, estate agent's and solicitor's fees. All of these costs can be included in the capital gains computation, but only if you know what they were.

3. Who owned the property at the date of sale? Splitting the gain over two or more owners can mean each person's share of the gain is covered by their annual exemption and no capital gains tax is payable. Remember to report the only relevant part of any taxable gain on the your own tax return.

4. How was the property owned; as tenants in common or joint tenants? If the as joint tenants then the property is almost certainly owned in equal shares. If it is held as tenants in common check exactly what share you owned. Remember to split the gain along the actual ownership ratio of the property.

5. Do you have other let properties? A property letting business brings together all the rental income and expenses from UK properties into one pool. This means interest paid on a mortgage for an empty property can be set against the income from other properties in the same year. Interest cannot be capitalised and deducted from the sale proceeds of the property.

6. Have there been any improvements or substantial repairs made to the property, which you have not claimed as deductions from rental income? The cost of improvements should be deducted from the sale proceeds to calculate the gain.

7. Did you ever live in the property as your main home so it qualified as your Principle Private Residence (PPR)? If you did occupy it and elect for the property to be your PPR when exactly did you move out and change the PPR election?

8. If the property was the your PPR at some point then letting relief can be deducted (see above).

9. Was the property let as furnished holiday lettings? If it was entrepreneurs' relief may reduce the taxable gain.

8. Inheritance Tax

Inheritance tax (IHT) is charged at 40% on everything you own when you die, excluding what is called the nil rate band, (£312,000 from 6 April 2008). Also any value given to, or left to, your UK domiciled spouse or civil partner, charities, political parties, or for the national benefit is also exempt. That leaves everything else you own, including the home you live in and your buy-to-let properties, which is potentially subject IHT.

Example
Charles never married and owned the following properties and other assets when he died on 1 December 2008. He made no Will and so died intestate. As a result no tax exempt gifts were made on his death. The inheritance tax due on his death is calculated as:

Own Home	£300,000
Let property (net of mortgage)	£160,000
Cash	£2,000
Quoted shares	£20,000
Total value of estate:	**£482,000**
Nil rate band:	£312,000
Taxable estate	£170,000
IHT due at 40%	**£68,000**

All the beneficiaries of Charles' estate agreed that his estate should be divided in a different manner so they signed a deed of variation to alter the arrangement set by the intestate law so his let property passed directly to a charity. The inheritance tax payable on his death is reduced to £4,000:

Total estate:	£482,000
Less tax exempt gift to charity	£160,000
Net estate:	£322,000
Nil rate band:	£312,000
Taxable estate:	£10,000
Inheritance tax payable at 40%	£4,000

One way to reduce the potential IHT charge on your investment properties is to have your property business treated as a trade (see chapter **5** above). In this case the value of your property business should attract 100% business property relief, which will wipe-out the value for inheritance tax purposes. Business property relief can also apply to properties let as furnished holiday lettings (see chapter **6**), as long as the owner plays an active part in the management of the tenants.

The disadvantage of this plan is that it will not be possible for a less active person to devote the time and energy necessary to run a property trade, rather than just collect rental income through a passive property investment. So as you become older you will need to review your inheritance tax planning at regular intervals.

Tip
On death all the assets, including any properties should be valued on an "as is basis", taking into account the tenancies in place. A property with a sitting tenant will normally sell for much less than a property sold with vacant possession. The lower the value at the date of death the less inheritance tax will be payable.

9. Overseas issues

Overseas property owned by UK residents

Letting overseas property
When you invest in property abroad you generally need to declare and pay tax on any income from that overseas property in the country where you belong. So if you normally

live in the UK, you are taxed in the UK on your foreign property income and any profit you make on sale of that property.

There are exceptions to this general rule if you do not normally live in the UK: in tax terms you are non-resident, or the country you regard as your permanent home is not the UK: in tax terms you are non-domiciled. The tax rules for UK residents who are non-domiciled are very complex and are outside the scope of this guide.

The rents from your overseas property are also likely to be taxed in the country where the property is situated, as well as in the UK. So you should inform the tax authorities where the property is located, which will may mean completing a tax return for that country. You may need to take local tax advice. If you use a property agent he may be required to deduct withholding tax from the rents, as a down-payment against the local income tax due.

If you have paid foreign tax on your rental income and there is a double taxation treaty between the UK and the country where your property is situated that covers this type of income, you will get the foreign tax paid treated as a part-payment of your UK tax liability. Unfortunately you can't reclaim foreign tax if your UK tax liability on the rental income from that foreign property is lower than the foreign tax paid.

The income and expenses from your foreign property need to be reported on the foreign income pages of your UK tax return. But be aware that other countries have different rules for determining which expenses can be deducted for tax purposes. Each type of foreign tax can only be set-off against its equivalent UK tax. For example foreign land taxes similar to the UK local authority rates will not available to set-off against UK income tax although you may get a deduction against the rental income received.

You will also have calculate the rental profits over the local tax year which is likely to be the calendar year, rather than for the year to 5 April. This means you may need to draw up two sets of property accounts for different periods.

Losses made on letting overseas property cannot be carried back to off-set against other UK income, but can be used in the same year or carried forward to set against other foreign letting profits.

Warning

The French and Spanish tax authorities appear to be actively investigating the large number of foreign owned homes, particularly British and German owned properties. Initial enquiries are made with local letting agencies and the information collected is being passed back to the UK and German tax authorities.

Gains on overseas property

When you sell your overseas property you will be liable to pay UK capital gains tax on the profit made. You may also be liable to pay tax on the profit in the country where the property is situated. A double taxation treaty may allow you to set foreign capital gains tax against UK capital gains tax due.

Tip

If you actually live in your foreign property for a while you can elect for it to be your PPR. This will protect a proportion of the gain from UK capital gains tax on sale.

UK capital gains tax on an overseas property can be avoided if you are prepared to become non-resident for the tax year in which the property is sold. However HMRC are wise to this move, and insist that you stay out of the UK for at least five full tax years before a capital gain on a foreign asset can be ignored by the UK tax system.

Holding the overseas property in a foreign registered company will not necessarily remove the capital gain from UK tax. There is a special tax rule that looks through a non-resident company to tax any gains the foreign company makes on the shareholders of the company, where a shareholder holds at least 10% of the company.

Warning
Take UK and local tax advice before setting up any special structure, such as a company to hold an overseas property. Such a property-holding company could affect the tax payable by your UK trading company.

UK Property owned by landlords who live overseas

Non-resident landlord scheme
Any managing agent or tenant, who pays more than £100 per week in rent to a landlord who lives overseas must withhold income tax at 20% from that rent and pay over the tax deducted to HMRC. However, if the landlord has registered with HMRC under the non-resident landlord scheme HMRC can authorise the agent or tenant to pay the rent gross, without deduction of tax.

Landlords
To receive rent gross, the landlord needs to declare to HMRC that all his UK tax affairs are up to date, and promise to tell HMRC if his non-UK address changes and if he becomes liable to UK tax. This is done on form NRL1.

Agents
A property agent acting for an overseas landlord must also register with HMRC within 30 days of taking rent for the UK property. The agent must complete an annual information return by 5 July each year. Some letting agents are not aware of their obligations under the non-resident landlord scheme.

Further information about the non-resident landlords scheme can be found on the HMRC website: http://www.hmrc.gov.uk/cnr/nr_landlords.htm

10. VAT and SDLT

VAT
Letting of residential property is exempt from VAT, so you are not permitted to charge VAT on the rents, unless it the property is let as furnished holiday letting when you may be obliged to charge VAT, (see chapter 6). VAT can apply at every rate possible to property transactions, for example:

- Standard rate (17.5%) on repairs carried out be VAT registered trader (see below);
- Reduced rate (5%) on the renovation of an empty property (see chapter 12);
- Zero rate (0%) on alterations to listed buildings;
- Exempt when a second hand residential dwelling is sold,
- Election to waive the exemption, also known as the option to tax, on lease or sale of commercial buildings;
- Outside the scope of VAT when the building is sold as part of a trade.

Tip
If you are dealing with a transaction which is in anyway unusual, get expert VAT advice, and that does **not** mean ringing the VAT national advice line: ask a VAT specialist.

Repairs
The costs of repairing and improving the let property will normally carry VAT which you cannot reclaim as the rents from the property are exempt from VAT. However, if you hold let properties through a trading company that is VAT registered and normally charges VAT at the full 17.5% rate on its other sales, it may be possible to reclaim VAT on the property maintenance costs. This is the case if the total VAT on the residential property costs does not exceed the following limits for the whole business:

- £625 per month on average, which is £7,500 a year; and
- 50% of the total VAT the business has to pay on all its purchases.

Stamp Duty Land tax (SDLT)
SDLT must be paid by the purchaser of land or property within 30 days of the effective date of the purchase. This is normally the completion date, the day on which the funds are handed over. But beware of taking procession of a property before the completion date, as this will bring forward the due date of payment of SDLT.

As the purchaser you must self-assess how much duty is due, but your solicitor will help you complete the land transaction forms that report the purchase to HMRC. There are penalties if the form is late, and interest on any duty paid late. Note you cannot register a property with the Land Registry until the SDLT is paid.

How much
SDLT applies to purchases of residential properties at the following rates:

Freehold property value:	Rate of SDLT on full consideration:
Up to £125,000	nil
£125,001 to £250,000	1%
£250,001 to £500,000	3%
over £500,000	4%

For the rates of SDLT applicable to commercial properties see chapter 11: Commercial property. Once a value threshold is reached the SDLT applies to the full cost of the property, not just the slice of value above the threshold.

Example
If you agree to buy a property at £250,100 you will pay SDLT of £7,505 (3% x £250,100 rounded to the nearest £5). If you negotiate the price of the property down to £250,000 you will save £5005 by reducing your liability to SDLT down to £2,500, (1% x £250,000).

If the price asked for the property you wish to purchase is set at just over one of the SDLT thresholds you can save SDLT by negotiating the price down below the threshold or agreeing with the seller that part of the purchase price represents removable fixtures and fittings, on which SDLT is not due. Such fittings may include:

- Carpets and underlay;
- curtains and curtain tracks;
- light fittings and ceiling fans;
- kitchen white goods such as dishwasher and fridge;
- garden furniture; and
- TV satellite dish.

HMRC are alive to such avoidance of SDLT and will examine transactions which fall just shy of the SDLT boundaries particularly carefully. Any agreement for the purchase of fixtures and fittings should be drawn-up very carefully with realistic values attached to fittings.

Warning
Linked transactions must have all the consideration aggregated to determine which SDLT band they fall in. Linked transactions are those with connected persons or that have the same vendor and purchaser.

Exempt from SDLT
There are a number of exemptions from SDLT but those you are most are likely to meet are:

- Gifts of property
- Zero carbon homes
- Homes in disadvantaged areas.

Gifts
If you make a gift of a property there is no SDLT payable on the value of that property. However, if the property has a mortgage attached that is also transferred, the transfer value of that debt is subject to SDLT.

> **Example**
> Lionel gives a property worth £233,000 to his civil partner Kevin. The property is subject to a mortgage of £133,000. SDLT of £1330 is payable being 1% of the debt transferred.

Zero-carbon homes
Sales of new zero-carbon homes made between 1 October 2007 and 30 September 2012 are exempt from SDLT if the following conditions apply:

- The transaction is the first sale of the property.
- The home has been granted a certificate to show it has zero carbon emissions from all energy use in the home over a year.
- The purchase price is £500,000 or less.

If the purchase price is more than £500,000 the SDLT will be reduced by £15,000

Disadvantaged areas
When buying a residential property it is worth checking whether it lies within one of the 1,997 designated disadvantaged areas, now known as enterprise areas. If it does the purchase is exempt from Stamp Duty Land Tax if the property is worth less than £150,000.

The disadvantaged areas are defined by electoral ward. But the wards used are those as existed when the list was drawn up, and not necessarily the exact electoral wards that exist today. The HMRC Stamp Office will want to know the exact postcode of the property to determine which ward it is in, or would have been in, according to the old ward map. If the property is new and has not yet been allocated a postcode, the HMRC Stamp Office want a map pinpointing the exact position of the property and the electoral ward in which it lies.

> **Tip**
> You can check whether a property will be exempt from SDLT by entering the postcode in the postcode search function on the HMRC website at: http://www.hmrc.gov.uk/so/dar/dar-search.htm, or by ringing the Stamp Duty helpline: 0845 603 0135 between 8.30 am to 5.00 pm Monday to Friday.

11. Commercial property

Letting commercial properties can involve less management than residential lets for the following reasons:

- The leases tend to be drawn up for longer periods, so there is less turnover of tenants;
- The tenant is normally responsible for repairs, renovation and insurance.

Pension schemes
Pension schemes can invest directly in commercial property or in trusts or funds that hold a range of properties, such as the new Real Estate Investment Trusts (REITs). You can use your own self-invested pension plan (SIPP) to purchase a commercial property, which may be let to your business. The SIPP can borrow up to 50% of its net assets to make the purchase, but expert advice will be required for such a transaction. Residential property cannot be placed in a SIPP.

VAT
The VAT issues concerning commercial property can be quite complicated, for example:

- The purchase price of building may or may not have VAT attached, depending on the age of the building and whether the previous owner has made what is called an *option to tax* election.
- Where the building costs over £250,000 the capital goods scheme may restrict the VAT that can be reclaimed if the building is sold within 10 years.

Tip
Take expert advice on VAT matters whenever you consider a lease or purchase of commercial property.

SDLT
Stamp Duty Land Tax applies at the following rates for commercial properties:

Freehold property value:	Rate of SDLT on full cost:
Up to £150,000	nil
£150,001 to £250,000	1%
£250,001 to £500,000	3%
over £500,000	4%

The threshold at which SDLT starts to apply for commercial property is higher than for residential property but commercial property tends to be more expensive. SDLT also applies to rents, where those rents are quite substantial or the lease is long term, both of which will tend to apply to commercial letting rather than to residential lets.

Tip
The formula for calculating the SDLT due on rents payable under leases is complicated, but there is an interactive tool on the Stamp Office website: http://ldcalculator.hmrc.gov.uk/

12. Distressed property

If you are inclined to rescue dilapidated properties and spend time and money renovating them for sale or rent you may be able to take advantage of a number of special tax reliefs.

Dwellings to be combined or split
Your builder may be able to charge you VAT at only 5% if you are converting a building to a different number of dwellings or converting a commercial building into a residential one. For instance the conversion of a large house into three flats should qualify for the reduced 5% VAT as there was one dwelling before the conversion and three afterwards. However, the transformation of a pub with a flat above it into one large house must be charged at the full 17.5% VAT rate as there is one dwelling before conversion (the flat) and one afterwards (the house).

Warning
The law is very complicated so it is best to ask your builder to get a ruling in writing from HM Revenue and Customs before the work starts.

Homes to be renovated
The reduced rate of VAT can also apply where the number of dwellings in the building does not alter but the property has been empty for at least two years before the work begins. The 5% VAT rate applies to building materials used in the renovation, but not labour costs.

Warning
Non-building materials installed as part of the renovation will not qualify for the reduced rate, e.g. carpets and appliances.

Empty means not lived in, but if the property has been used for storage it counts as having been empty.

Tip
Collect evidence that the building was unoccupied for at least two years. A letter from the local council Empty Properties Officer may suffice.

If the building becomes occupied before the renovations are completed the occupier must be the person who acquired the property either solely or jointly, and the person who is the

customer for the renovation services. Also the renovations must be completed within **one year of** acquisition of the property.

Listed buildings
VAT is charged at the zero rate on the approved alteration or enlargement of a listed residential building. Listed building consent will be needed from the appropriate planning authority for the alteration prior to the commencement of the work. If consent is not granted and the alterations are carried out the VAT on the work will charged at 17.5% as it will not be ‘approved’.

Work on repairs or maintenance rather than alterations is charged at 17.5% even if the work has been included in a listed building consent.

Tips
- Listed building consent can be very general so provide plans and estimates at the time consent is applied for to prove that the consent covered the work in question.
- Retain evidence that the work done required consent to be given.
- If the job expands or changes apply for consent to cover the changed work.

Flats above commercial premises
If you own a property that was built before 1980,which is used for a commercial purpose on the ground or lower floors, you may be able to claim a 100% capital allowance for the converting unused space on the upper floors into flats. The flats created must be quite modest, with no more than four rooms and have access separate from the commercial area below.

There are a number of other strict conditions may limit the usefulness of this tax relief to fairly run-down areas away from the south east of England. In particular this tax allowance cannot be claimed for:
- Conversion of warehouses into penthouse flats;
- Creating bed-sits with shared bathroom facilities;
- Creating a 'granny flat' in part of a larger house;
- The residential part of a larger project, to say refit the whole building or precinct;
- Converting a building designed as wholly retail or office premises into flats.

Tips
- The person who owns or leases the building should incurs the expenditure.
- The flats need to be held for seven years or more after conversion, or the tax allowance will be clawed back.

Renovation of business premises
This is a similar tax allowance to that which applies to the renovation of flats above commercial premises (see above). You can claim a 100% allowance for the capital costs of renovating an empty property to bring it back into use for business purposes, if the following conditions apply:
- The expenditure must be incurred after 10 April 2007 and before 11 April 2012.
- The property must be situated in a designated assisted area, or in Northern Ireland.
- It must have been unused for at least 12 months before work commences.
- When last used the property must have been used for a trade or profession or as offices, but not as a dwelling

There are a number of trades where the empty buildings will not qualify even if they are situated in an assisted area, these include ship building, fishing and the coal industry.

Summary of our services

At Leftley Rowe we work with our clients from initial purchase to final sale. We deal with HM Revenue and Customs on your behalf and provide ongoing tax planning and advice.

Our services include:

- Helping you chose the best legal structure for your property purchase structure e.g. as an individual, as joint owners or via a company to maximise rental profits
- Advice on the capital gains exemptions available to you when you sell or dispose of your property
- Preparation of rental accounts and your annual self-assessment tax return form
- Advice on treating your property business as a trade as opposed to an investment
- Advice on tax allowable expenditure to maximise rental losses for set off against current or future rental profits
- Advice on tax liabilities and due dates of payments required
- Advice on the optimum time to sell, gift or transfer your property to minimise any capital gains tax liability
- Advice on VAT issues for commercial and residential letting, property management and development
- Advice on inheritance tax planning including the use of trusts and tax efficient investments
- Advising landlords based overseas on their UK tax obligations
- Advice on furnished holiday lettings and 'rent a room' relief

Contact Us

If you would like further information about our services please contact us.

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1. Please note that this guide is intended as general guidance only for individual readers and does NOT constitute accountancy, tax, investment or other professional advice. Leftley Rowe accepts no responsibility or liability for loss that may arise from reliance on information contained in this guide.

2. Please note that tax legislation, the law and practices by the UK Government and tax authorities are constantly changing and the information contained in this guide is only correct as at the date of publication.

3. This guide only covers UK taxation, foreign tax implications are beyond the scope of this guide.

4. Please note that Leftley Rowe has relied wholly on the expertise of the author in the preparation of the content of this guide. The author is not an employee of Leftley Rowe but has been selected by Leftley Rowe using reasonable care and skill to write the content of this guide.