Property Investment Brief

By the Approachable & Friendly Accountancy Service

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"Property Investment" is a very wide-ranging term. A few years ago, the majority of new investors tended to be purely interested in the 'Buy-to-let' market. As the Property Let sector has grown larger and more sophisticated, many other types of activity have begun to proliferate including 'Buy-to-sell', 'Let–to-buy' and of course, a great deal of renovation, conversion and development activity in all areas of our towns and villages. Beyond these, lay the fields of property trading and management which and will require considerable resources of financial capital investment and time.

All these different types of activity are subject to different tax regimes, and establishing the correct tax classification for each property business, is the job of a specialist such as an accountant, or tax advisor.

Reasons for becoming a property investor can sometimes be by accident, finding yourselves with a second property through marriage, inheritance or other changes in personal circumstances. Others will move in to the property sector quite deliberately.

Despite recent concerns over the future of the UK property market, it is generally felt that the property investment sector we now know is here to stay.

There are plenty of 'Tax Tips' along the way, so beware and keep well read, as being well advised could minimise or delay your tax bills. Remember that with every gain there are 'Treacherous pitfalls' awaiting the unwary taxpayer. There are also many 'Practical Pointers', which will make the whole process of meeting your obligations as a taxpayer as painless as possible.

You must always find your own level when investing, and seeking financial and tax planning advice is very important, as good tax planning strategies employed at the start can substantially reduce you future tax burdens!

Areas to be aware of:- Tax on property and rental income

Tax on buying property. Stamp Duty Land Tax (SDLT) - seek current rates and exemptions for example disadvantaged areas.

Tax on selling property. Find out when you have to pay Capital Gains Tax (CGT) on the sale of property, how it works. Your Tax Advisor can help you with this!

<u>Tax relief when selling your home</u>. Private residence relief or Capital Gains Tax (CGT)? Find out what happens if you have more than one home, or if you're self-employed and work from home.

<u>Tax on rental income</u> - An overview should be sought regarding tax on rent, including renting rooms in your home, residential investment letting and furnished UK holiday lettings.

> For example: a Purchaser 'Buy-to-let' Property £140,000 say with a Mortgage of £100,000, at 6%, this being £6000 interest per annum (Interest Only) This will be split to £500 per month. Therefore, your rent (as a Landlord) will have to be in the range of £550 to £600 per month (unfurnished). Which you would cover your mortgage interest and a contingency of £600 to £720 per year for repairs and general maintenance. The 'Tennant' pays the Rates and Council tax. The Landlord will be responsible for general repairs and maintenance, and any Ground Rents that are due if Leasehold, rather than Freehold.

<u>The Rent a Room scheme</u>. You will need to work out whether you're better off in the Rent a Room scheme or paying tax on rental income outside the scheme

<u>Tax on rent from residential property lettings</u>. It will be necessary to work out the taxable profit when you let residential property and report the profits to HM Revenue & Customs and pay over any tax on it

<u>Tax on UK holiday lettings</u>. There are tax advantages of furnished UK holiday lettings – you will need to work out if your property qualifies.

<u>Tax on overseas property lettings</u>. Working out the profits for overseas residential lettings, how they're taxed and how to deal with exchange rates and foreign tax paid is a whole subject in its own right!

<u>Record keeping for landlords</u>. Records will need to be kept for your property letting businesses – along with details of your asset will be needed for Capital Gains Tax purposes, if you sell a property along with dates of disposal and acquisition.

<u>Expenses and allowances on income from property</u>. Various expenses and allowances can deducted from rental income, for tax purposes. You must learn when to report expenses and what to do with losses.

Allowable expenses you can deduct from letting income (unless it's under the Rent a Room scheme) **include:**

- letting agent's fees
- legal fees for lets of a year or less, or for renewing a lease for less than 50 years
- accountant's fees
- buildings and contents insurance
- interest on property loans
- maintenance and repairs (but not improvements)
- utility bills (like gas, water, electricity)
- rent, ground rent, service charges
- Council Tax
- services you pay for, like cleaning or gardening
- other direct costs of letting the property, like phone calls, stationery, advertising

If your annual income from the letting is less than £15,000 (before you've taken off expenses) you include the total expenses on your tax return; if it's £15,000 or over you need to provide a breakdown.

Bear in mind that you can only claim expenses that are solely for running your property letting business. If the expense is only partly for running your business (or if you use the property yourself) then you may only be able to claim part of it.

Non-allowable expenses

When you work out your profit, you can't deduct:

- 'capital' costs, like furniture or the property itself
- personal expenses - costs that aren't to do with your letting business
- any loss you make when you sell the property

But you may be able to claim some allowances instead.

Allowances that can reduce your taxable profit

There are different types of allowance you may be able to claim for your capital costs. Capital costs include expenditure you make on assets like furniture and machinery. The allowances you can claim for some of your capital costs vary according to the type of letting.

Most people set a rent to cover the costs, mortgage interest.

It is the intention that an investment property has a greater resale value, than that at the time of purchase. Also, you need to be aware that the longer you keep the property under CGT, generally the better the taper relief you will receive. However, this is a very simplistic view and would need proper tax advice.

So to recap, it is the intention of a property investor to...

End up with an increased value of the property, and a reduced mortgage (in the case of capital replacement mortgages). Most property developers will have an interest only mortgage, and try to cover the capital gap with profit from the equity of another owned property or investment. Some investors will be seeking a future pension from their investments, be careful as INVESTMENTS do go down as well as up!

I find a good axiom is: “Only being willing to invest, what you can afford to loose!” and “Get rich schemes are for the rich”.

This article is by no means a full explanation of Property Investment, but just a taster for the person who seeks to know more.

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