Summer 2004
Newsletter

PROPERTY TAX SOLUTIONS

Taxation solutions minimising the tax paid by Landlords

Taxation Solutions Ltd
Suite 8, Church Farm Business Centre

Tel: **0800 0274533**
Email: **info@propertytaxation.co.uk**

Starting to let


Is it ready to let?

You have just completed your first buy-to-let property purchase and there are a lot of expenses to meet before the property can actually be let. What do the tax rules allow you to deduct from the rental income when it does start to flow?

To start with you need to sort your expenses into one-off costs such as those connected with buying the property known as capital costs, and other expenses that are likely to be repeated as tenants change, which are classified as revenue costs. The capital costs can't normally be deducted from rents received but the revenue costs can.

Some capital expenses are, however, specifically allowed. If you install cavity wall or loft insulation in your property this is a one-off capital cost but you can deduct the expense, capped at £1,500, if it was incurred after 5 April 2004.

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 to be let for a 'modest amount' the renovation costs may qualify for a special 'flats over shops' capital allowance. The conditions for this tax relief are strict so ask us for further details if you think your property may qualify.

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 lettable before the sprucing-up began. (Whether it was lettable at a rent acceptable to you is another matter entirely!)

Revenue expenses should be deducted from the rents received for the period in which the cost

Inland Revenue guidance in leaflet: IR150: Taxation of rents, paragraphs 302-328

Tax Deadlines

31 July

Pay second payment on account amount of income tax due for 2003/04. Automatic £100 fine if 2002/03 Tax Return is still not submitted. 5% surcharge on unpaid income tax and CGT due for 2002/03.

6 September

Report all shares or share options issued to employees or directors during 2003/04 to the Revenue.

30 September

Paper version of personal Tax Return for 2003/04 to be submitted so tax due of up to £2,000 can be collected through your 2005/06 PAYE coding. Your Tax Credit declaration for 2004/05 must be with the Tax Credit office if your circumstances or income have changed significantly.

5 October

If no tax return has been received you must inform the Inland Revenue of any tax liability for 2003/04 that has not covered by tax deducted at source.

31 October

This your last chance to ask the Inland Revenue to issue a tax return for 1998/99. You need to complete this form if you want to challenge the deductions made through your PAYE coding for 1998/99.

Tax tip

When buying a property it is worth checking whether it lies within one of the 1,997 designated disadvantaged areas. If it does the purchase is exempt from Stamp Duty Land Tax for a residential property worth less than £150,000, or for any value of non-residential property.

In association with the National Landlords Association

The **National Landlords Association**, protects and promotes the interests of landlords operating in the private-rented sector in the UK. The NLA provides a range of benefits and services to individual members, including a telephone advice line, regular newsletters, a quarterly Journal, and more. For more details see the NLA website: **http://www.landlords.org.uk.**

Jason Sharp, the founder of Taxation Solutions Ltd is a qualified tax advisor with many years experience dealing with taxation issues of property owning individuals. If you wish to

Relief from tax for letting

You heard the tax you pay on a property sale can be cut if the property has been let as residential accommodation. This sounds too good to be true, so what are the facts?

Fact 1

You must live 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.

Fact 2

The tax relief is restricted to the lower of the gain that is exempt due to using the property as your main home, the gain attributed to the let period, and £40,000.

Fact 3

Even if you only live in the property for a short period the gain attributed to the last three years of ownership is also exempt from tax. The gain is always allocated equally across the ownership period, although the gain may have actually arisen in an uneven pattern.

Example

Capital gain before tax relief:	£90,000
Exemption for main home: 1+ 3 years	£60,000
Letting relief restricted to lower of £60,000, 3 x £15,000 and remaining gain	£30,000
Net Capital gain taxable:	NIL

The choice of two homes

Shelter a property

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 of the house you live in also increases at a similar rate but the gain is protected from tax by what is known as the principal private residence (PPR) 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.

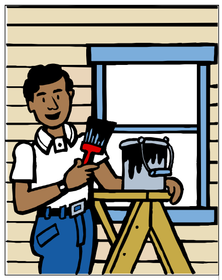
If you occupy more than one property, perhaps a town flat and a country home, you can elect which should be treated as your PPR for tax purposes. You can only have one PPR at any one time and you must actually spend some of the year living in at least part of the property you elect to be your PPR. So a property that is fully let cannot be your PPR. The PPR election must be made within two years of acquiring the second property, but once made it can be changed at any time.

Living in a property for some time before 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. Ask us to help you with the PPR election.

Capital allowances for Landlords

Most landlords disregard capital allowances because the law says you cannot claim these allowances for furniture and fittings used in a let residential property. You would normally claim a 10% 'wear and tear' allowance in lieu of the cost of these items. However you are allowed to 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 this function to the letting agent. Office equipment used predominately for your letting business 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 are normally given at the rate of 25% of the remaining cost per year, but in the year of purchase you can claim at least 40% of the cost. For one year only from April 2004 small businesses can claim 50% of the cost of qualifying equipment in the first year. Small businesses are those with turnover of up to £5.6 million.

Tip:

If the capital allowances exceed your net rents in a year the loss can be set against your other income.