Winter Newsletter

PROPERTY TAX SOLUTIONS

Taxation solutions minimising the tax paid by Landlords

Taxation Solutions Ltd
Suite 8, Church Farm Business Centre

Tel: **0800 0274 533**
Email: **info@propertytaxation.co.uk**

Tax Deadlines (2005)

31 January

All 2003/04 tax returns must be submitted to the Inland Revenue, unless the return was issued after 5 October 2004. Automatic £100 fine for any late tax returns. Pay remaining tax due for 2003/04 and pay first instalment of income tax for 2004/05. Last day to pay personal pension contribution and elect to have it treated as paid in 2003/04.

14 February

Defer payment of NIC for 2004/05 for those with two jobs.

28 February

Any unpaid tax for 2003/04 attracts an automatic 5% surcharge.

31 March

Final opportunity for small businesses to buy equipment and claim 50% first year capital allowance.

5 April

Last day to dispose of assets to create a capital loss in 2004/05, have gains covered by exemption of £8,200, transfer assets of up to £3,000 or gifts out of income under IHT exemptions.

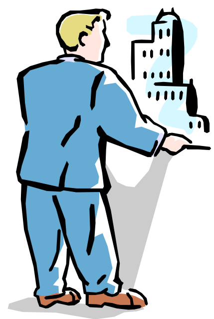
30 September

Tax credit renewal forms must be returned. Paper version of 2004/05 tax return must be submitted if the Revenue is to complete the tax calculation, or if you want tax due of up to £2,000 collected through your 2006/07 PAYE code.

Tax tip

If you let a property abroad you have a responsibility to report the income received to the local tax authorities as well as to the Inland Revenue. We understand that the Spanish and French tax authorities are working with letting agencies to identify British owned properties that may be let out.

Short letting in the City



Let a room with a City view

There are significant tax savings (see page 2) to be made by letting property as furnished holiday letting (FHL), but most landlords believe their properties could not possibly qualify. The truth is almost any residential property that is let furnished and is situated in the UK could qualify as FHL. It does not have to be in a tourist area but the lettings must satisfy three annual 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 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' just means letting to the general public for periods which do not normally exceed a month, but this could of-course include letting to business people temporarily working in the City as well as to tourists. The seven months of short lettings in condition 3 do not have to be a continuous period, and the property may be let to one tenant in the other five months of the year.

If letting pattern ensures the property qualifies as FHL for a tax year any gain on disposal of the property will attract the higher rate of taper relief for that period. The gain can also be rolled over into the purchase of another FHL property or into a different business asset. Relief from capital gains tax can also be achieved when a FHL property is given away, as the property

Inland Revenue guidance in leaflet: IR 150 Taxation of rents, paragraph 415

The **National Landlords Association** exists to protect and promote the interests of residential landlords operating in the private rented sector throughout the country. With its head office in Westminster, the NLA lobbies central government increasingly effectively, and carries weight with local authorities. The NLA provides a range of benefits and services to individual members, including a telephone advice line, regular journals and much more. **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

Same property - different tax bills

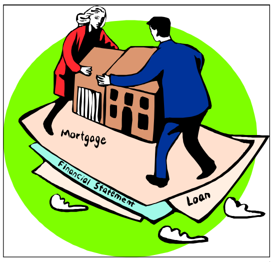
Alfie and Bert both purchased identical penthouse apartments to let for £200,000 in April 1998 and sold the same apartments for £305,000 in July 2004, making a £100,000 gain each after deducting selling costs. Bert's apartment was let on standard short-term tenancies of six month duration, while Alfie 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.

Alfie'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%. Bert's property is classed as a non-business asset, so will only attract 20% taper for a holding period of six full years. Alfie's and Bert's respective capital gains tax bills are shown in the table:

	Alfie's tax	Bert's tax
Net gain	£100,000	£100,000
Taper relief at 75% / 20%	£75,000	£20,000
Chargeable gain:	£25,000	£80,000
Annual exemption	£8,200	£8,200
Taxable gains	£16,800	£71,800
CGT due at 40%	£6,720	£28,720

Alfie saved £22,000 in tax by letting his property in a flexible way so it qualified as furnished holiday lettings in all tax years.

When can I put my property into my pension scheme?



A self-invested personal pension scheme (SIPP) allows you to have some control over the assets your pension is invested in. From 6 April 2006 the investment rules are changing so a SIPP will be able to hold residential property, antiques and even racehorses or boats.

Holding a let property in a SIPP may sound attractive as the income and gains generated by the property will be protected from tax. The property will also be outside your estate for inheritance tax. However there are some negative points to consider:

For your SIPP to buy a property to let it will have to raise sufficient funds to make the purchase. But from April 2006 it will only be able to borrow 50% of the total value already in the fund, so you may have to boost the SIPP funds with cash contributions first. Transferring a property you own into a SIPP does not qualify as a pension contribution.

If the SIPP acquires a property directly from you any gain you make will be subject to capital gains tax. Also once your let property is within the SIPP its value is stuck there until you retire and start to draw your pension benefits. Normally most of the funds in the SIPP will have to be used to buy an annuity before you reach the age of 75 but, using a new style family SIPP, it may be possible to side-step these rules.

Putting residential property into a SIPP will not suit everyone and it will not be possible for every buy-to-let landlord to achieve this. You will also need specialist pensions advice to set up a SIPP if you don't have one already. Taxation Solutions can assist with this.

Pre Budget report summary

In December the Chancellor gave his annual autumn statement which amounted to a mini pre-election Budget containing lots of announcements to stamp out tax evasion, while simultaneously giving away extra funds to families with children.

The blocked tax loopholes were mainly those used by City banks to pay tax free bonuses. Until the legislation is released it will be impossible to know whether this sledgehammer will also hit small companies.

There were no announcements about the proposed Real Estate Investment Trusts. However a new tax relief was floated for renovating empty business property in disadvantaged areas. It is likely to operate in a similar fashion to 100% capital allowances for renovating flats over shops, but the start date is not set, as the legislation will need European Commission approval.

Families who use registered childcare will be able to claim up to £210 per week of those childcare costs as tax credits, if the family income is within certain limits. The proportion of eligible childcare costs that can be claimed will rise from 70% to 80% from April 2006.

The tax free personal allowances for 2005/06 are shown in the table.

Aged under 65:	£4,895
*Aged 65– 75:	£7,090
*Aged over 75:	£7,220