HOW TO MAXIMISE LANDLORD EXPENSES

2019/20

Jennifer Adams

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PROPERTY

Contents

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About Jennifer Adams

Jennifer Adams FCIS TEP ATT (Fellow) has been a professional business author for over 15 years, specialising in corporate governance and taxation. She is also the proprietor of her own accountancy firm and as such, she is well placed to advise on tax problems that companies and their directors may face.

Jennifer has been a regular contributor to Business Tax Insider, Property Tax Insider and Landlord Vision.

She is the author of the following Tax Insider guides:

- Tax Tips for Company Directors Guide
- How to use Trusts to Reduce Property Taxes Guide

About this Guide

Property owners become landlords for a variety of reasons but one thing that they all have in common is the desire to maximise rental income profits and/or capital growth from their property investment. A common mistake is to think that the only way that this can be achieved is by increasing the rent to as high a level as the market can take but this might not be practical, depending on a variety of reasons.

However, there is another way to increase profits without increasing rent and that is via the effective use of tax planning around maximising expenses. Many landlords may not be aware that there are different methods of calculation depending upon the type of income and expenses. There are also different claims available, the choice of which may be beneficial in increasing expenses and reducing profits.

This guide concentrates on areas where tax savings may be possible, the actual amount of saving being dependent upon the precise circumstances of the situation and the individual landlord and as such, the examples are included as a guide only.

It must be stressed that professional advice should always be sought when undertaking any form of tax planning.

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Taxable Profits – Method Of Calculation

Tax is charged on the full amount of profits arising in the tax year. All profits from UK land or property are treated for UK tax purposes as arising from a business carried on by the registered owner (even if an agent is employed to carry on the business for them). Profits are broadly calculated using the same principles as for a trade, although the taxpayer is not treated by HMRC as if he were trading.

If a landlord benefits from different types of income from land and property (i.e. commercial or residential lets, furnished or unfurnished) in the UK, then they are all treated as being part of a single business; as such it is not necessary to maintain separate records for each property (although in practice this might be a good idea in order to ascertain the profitability of each property). However, should the landlord also have income from property situated outside of the UK, then this is treated as a separate business. Income from furnished holiday lets must also be calculated separately as different rules apply. Special rules apply to the UK rental income of non-resident landlords (not covered in this text).

Practical point

Any sized plot of land (whether receiving rents or not) which is occupied or enjoyed with a residential property can be considered to be part of that property and be subject to the capital gains tax rates (CGT) for residential properties. The CGT rates for an investment residential property are higher than for CGT rates for non-residential property.

1.1 Cash Basis v Accrual Basis

Many landlords automatically use the cash receipt method of profit calculation not being aware that there is another method that may be more beneficial to use in certain circumstances.

The cash basis is the default method of accounting for profits used by landlords whose total gross income from UK property (including Furnished Holiday lets (FHL) in the UK) or income from foreign property (including Furnished Holiday lets in the EEA) is less than £150,000 per year.

However, importantly, they can opt out of using this basis and use the ‘accruals’ basis of calculation (also termed the ‘earnings’ basis), which follows the ordinary accounting rules. Larger unincorporated property businesses whose receipts are greater than £150,000 have no choice; their default is the accruals basis.

The difference between the two basis is that under the cash basis the income is recognised only when it is physically received and relief for expenditure is not given until the payment has been made or incurred, whereas under the accruals basis, a landlord has to recognise the income that is due to them and the expenses that relate to the tax year under review, irrespective of whether or not the income has actually been paid or the expenses met. This means that under the cash basis, no adjustments are needed for debtors, for example, whereas under the ‘accruals’ basis,