THE ULTIMATE TAX GUIDE FOR LANDLORDS WITH PROPERTY IN THE UK

Introduction

As a landlord in the UK, understanding your personal tax liability will help you make the most of your real estate investments.

When you buy, rent, or sell a home, you must pay tax, and the value of the property, as well as your overall income, determine your tax bracket.

Stamp Duty Land Tax, Capital Gains Tax, and Income Tax are all forms of landlord tax in the UK.

These are the three most important. However, you don't pay them all at once.

Knowing what you can and can't claim as tax deductions is key to managing your liabilities and paying less in taxes.

Our UK guide gives property owners insight on the tax obligations that they need to be aware of as a landlord, and discusses what's the easiest way to file a tax return, and claim a UK tax refund.

Property Tax International

UK Residence and tax

Your UK residency status influences whether you must pay tax on your overseas income in the UK.

Non-residents are only taxed on their UK income, and they are not taxed on their international income.

Residents typically pay tax on all of their income, whether earned in the UK or somewhere else.

However, there are specific requirements for UK residents whose permanent home ('domicile') is located outside the country.

Over 130 countries have tax treaties with the UK. Tax treaties often stipulate that the same income should not be taxed twice in two different territories.

Income tax - when you rent out your real estate

Income tax is just what it sounds like: a tax on what you earn.

It is the only tax that private landlords pay on rental income.

In the UK, it is known by a variety of names, including landlord income tax, property income tax, and buy-to-let income tax.

However, they all refer to the same tax. Landlords should pay income tax by registering for self-assessment if their rental income exceeds £2,500.

Landlords can claim a variety of rental income expenses, exemptions, and reliefs. We will discuss this below.

You're taxed on your net rental income, or profit, which is calculated by adding all of your rental income from different properties, and subtracting any rental income exemptions, relief, or allowable expenses.

If you earn between £1,000 and £2,500 per year from renting a property, you must notify HMRC in order to pay tax via your tax code.

What is considered rental income?

Rental income is any money you receive from renters for:

- Rent
- Usage of furniture
- Cleaning of public areas
- Hot water
- Heating
- Repairs

What are the income tax rates in the UK?

The standard Personal Allowance is £12,570, which is the amount of income you do not have to pay tax on.

This implies that you pay the basic rate - 20% of your income – on anything over that, up to and including £50,270.

Incomes over £50,270 are taxed at a rate of 40%, while incomes over £150,000 are taxed at a higher rate of 45%.

In Scotland, if you earn less than £12,570 in 2022/2023, you pay no income tax. Between £12,570 and £14,732, you pay a rate of 19%, and between £14,733 and £25,688, you pay the Scottish basic rate of 20%.

Those earning between £25,689 and £43,662 pay an intermediate rate of 21%.

The higher rate of 41% will be applied to incomes over £43,662, while the highest rate of 46% will remain at £150,000.

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What are the allowable expenses in the UK?

Every pound spent on costs that are related to your business can be used to reduce your tax liability.

If you hold money from a deposit to pay for repairs or cleaning after a tenant is out, you must include it on your tax return.

What you can claim depends on whether you're letting residential property, a furnished vacation let, or business property.

Residential landlords can claim for day-to-day expenses involved in running their properties, such as:

- business expenses such as phone calls, travel (vehicle running costs), and maintaining a home office;
- fees for professional services such as letting agents, accountants, solicitors, or surveyors;
- insurance coverage for buildings, as well as rent guarantee;
- replacements and repairs to the property, or some of the domestic items;
- cleaning and gardening services;
- council tax and utility bills;
- loan and credit purchase interest;
- legal fees for one-year, or shorter leases;
- fees for renewing a lease for less than 50 years;
- business phone calls, stationery, advertisements, and other examples of direct costs.

What is not considered deductible expenses?

1. Mortgage interest and your full mortgage payment form.
2. Any home improvements.
3. Calls not related to your property business.
4. Personal expenses and clothing.

Let’s dig a little bit deeper into some of them.

Fees for professional services

These are invoices from accountants, real estate agents, solicitors, and surveyors.

Costs associated with collecting bad debts, evicting tenants in rent arrears, and maintaining financial records, are also allowable expenses.

However, expenses associated with buying, selling, or applying for planning permission for a property are not allowable - they are included in your capital gains tax calculation when you sell the property.

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Replacements and repairs to the property

An ‘improvement’ is a significant upgrade that increases the value of a property.

You cannot deduct improvements from your income taxes.

On the other hand, a ‘replacement’ refers to the change or renewal of a component of the property’s fabric, such as a roof tile, a boiler pump, etc.

You can claim relief for the replacement of domestic items’ for items such as:

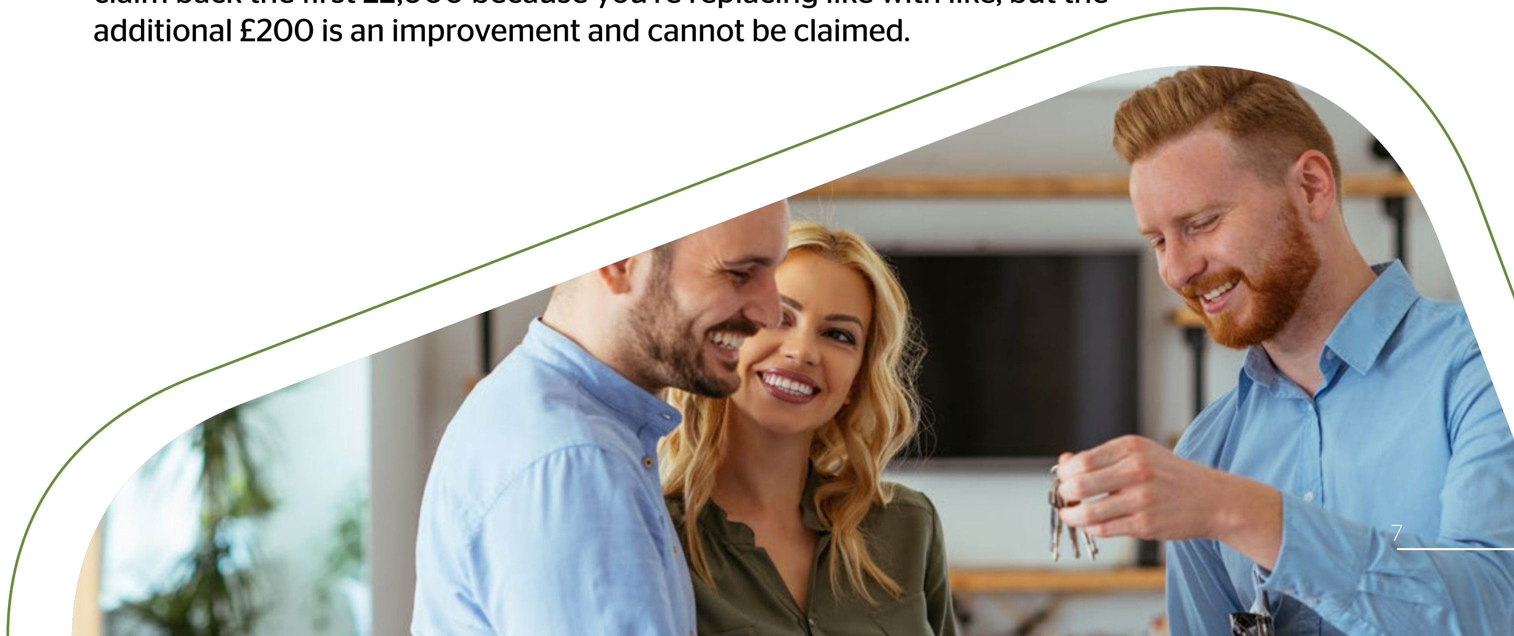
- Furniture and furnishing
- Domestic appliances
- Kitchenware

To be eligible for this relief, you must have purchased the item for the property and removed the previous one.

The initial cost of preparing a residential property for a rental cannot be deducted.

You also cannot claim the entire cost of upgrading the item.

If you replace a £2,000 sofa with a £2,200 sofa bed, you add value, and you can claim back the first £2,000 because you’re replacing like with like, but the additional £200 is an improvement and cannot be claimed.



What happens if a landlord loses money?

For taxation purposes, you make a loss if your allowable expenses exceed your rental revenue for the year. This loss is carried forward and used to offset future rental.

When is the deadline for self-assessed tax returns in the UK?

Landlords who rent out property in the UK (both residents and non-residents) must file an annual tax return by the 31st of October after the end of the tax year if filing on paper, or the 31st of January the following year if filing electronically.

They are considered self-employed because they receive income that is not taxed at source (via PAYE), and that's why they should file a self-assessment tax return to HMRC.

If you are submitting yours online, you must do it by 31 January each year following the tax year.

For example, the tax return for 2021/22 years is due on or before 31 January 2023.

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Stamp duty - when you buy your UK property

In the UK, if you buy real estate for more than a certain price, you may be required to pay Stamp Duty Land Tax (SDLT).

It is paid when the purchase price is more than £125,000.

The particular tax you pay and the specific value of the property that triggers it will vary.

The tax ranges from 2% to 12% of the purchase price, depending on the value of the property purchased, the date of acquisition, and whether you own numerous homes.
While the threshold for non-UK residents is £150,000, a 2% surcharge is due if they are buying a property in England or Northern Ireland on or after 1 April 2021.

You must submit an SDLT return to HMRC and pay your SDLT within 14 days of the purchase.

SDLT return is due even though you have no stamp duty to pay but you pay more than £40,000 for the property.

For personal tax-related questions, you should always seek professional guidance.

What are the standard tax rates?

***There are differences in the Stamp Duty Tax Rates in Scotland and Wales.**

FOR THE PURCHASE OF A MAIN PROPERTY

Purchase price bands (£)	Rate (%)
Up to £250,000	0%
The next £675,000 (the portion from £250,001 to £925,000)	5%
The next £575,000 (the portion from £925,001 to £1.5 million)	10%
The remaining amount (the portion above £1.5 million)	12%

FOR THE PURCHASE OF ADDITIONAL PROPERTY

Purchase price bands (£)	Rate (%)
Up to £250,000	3%
The next £675,000 (the portion from £250,001 to £925,000)	8%
The next £575,000 (the portion from £925,001 to £1.5 million))	13%
The remaining amount (the portion above £1.5 million)	15%

If you are purchasing your first home

If this is your first home, you may be eligible for a discount.

This means you'll pay no SDLT on properties worth up to £425,000 and SDLT of 5% on the amount between £425,001 and £625,000.

You are eligible if you and any other buyers are first-time buyers. You cannot claim the relief if the purchase price exceeds £625,000.

Capital Gains Tax - When you sell out your UK property

When you sell a property for a profit – for example, a house you bought, repaired, and rented out – you may be subject to capital gains tax (CGT). The calculation of CGT is based on the gain.

What are the current CGT rates?

You only have to pay Capital Gains Tax on gains that exceed your tax-free allowance (called the Annual Exempt Amount).
The tax-free allowance for capital gains is £12,300 and £6,150 for trusts.

What are the future CGT rates?

The UK government reduces the CGT tax allowance from £12,300 to £6,000 for personal representatives and individuals in April 2023, and to £3,000 in April 2024.

Under the temporary non-residence regime, if you make a gain that is included in UK CGT, it is regarded to have occurred in the year that you return to UK residency. As a result, you would have a yearly exemption (£12,300 for 2022/23) available for that year.

From 6 April 2020, if you've sold or otherwise disposed of any of the following, you must declare the sale using the Capital Gains Tax on the UK Property account and pay any applicable taxes.

The disposal must be reported online even if:

- Residential UK land or property
- Non-residential UK land or property
- Mixed use UK land or property
- The right to property with at least 75% of its worth derived from UK land (indirect disposals)

When you report a loss, several rules apply. In this case, you should consult a specialist.

- you're registered for Self Assessment
- you've made a loss
- you've no tax to pay

Additionally, if you are a non-resident, you must inform HMRC if you sell your property at a loss or if your gain is below the tax-free allowance.

Generally, disposals by non-residents should always be reported, regardless of whether a CGT is due or not.

CGT rates vary depending on whether you are a basic or higher-rate taxpayer. Basic rate taxpayers will pay 18% CGT on residential properties and 10% CGT on other chargeable gains. Higher-rate taxpayers pay CGT at 28% on residential properties and 20% on other chargeable gains.

From 27 October 2021, you must report and pay within 60 days of completion of conveyance.

If the completion date was between 6 April 2020 and 26 October 2021 you must report and pay within 30 days of completion of conveyance.

You may have to pay significant interest and a penalty if you do not report and pay on time.

Who can help me to file my UK tax return?

Property Tax International (PTI Returns) specializes in property tax, and we have more than 20 years of experience.

Our tax experts have the competence and skills to quickly and efficiently handle the tax issues of both UK and non-resident landlords.

They will also figure out the tax deductions that you can avail of, depending on your personal circumstances.

Contact us to learn more about how we can assist you.

We will relieve you of the stress of dealing with your tax obligations, so you can enjoy your time as a landlord!

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Benefits of filing with Property Tax International

- We are part of CluneTech and we specialize in property tax and have more than 20 years of experience completing international returns for property owners.
- Our tax experts will handle all the paperwork for you, and we guarantee you will be complaint in the UK.
- We have multilingual support via phone/email, and our agents will answer any questions you have about international property taxes and provide professional tax advice
- You will save money on your tax return
- Last year, we submitted over 322,000 tax returns

[Contact Property Tax International today for a free no-obligation consultation]

Property Tax
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