101 Property Tax Tips

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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.

Unfortunately the government believes that it should take some of that profit or gain in the way of tax such that all property owners, whether an individual, a company, a trust or personal representatives of an estate will, at some time or other, find themselves subjected to tax on that property.

However, there is much that can be done to save or at least reduce the amount of tax payable.

This easy to read guide reveals insider tax saving tips and strategies that are currently available so that the minimal amount of property tax is payable, regardless of whether you are landlord, a property developer or own the property as a main residence.

Due to the restrictive number of pages, this book can only show some areas where tax planning is possible. More ‘Tax Tips’ can be found in the monthly newsletters of Tax Insider, Property Tax Insider and Business Tax Insider as well as on the Tax Insider website.

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

Chapter 1.
Different Ways Of Owning Property

1. Private Landlord

2. Corporate Or LLP Landlord

3. 'Special Purpose Vehicle' Companies

4. Management Company

5. Trader Or Investor?

6. Change In Type Of Ownership

7. Methods Of Personal Ownership

8. Profit Allocation

9. Joint Spouse/Civil Partnership Ownership (1)

10. Joint Spouse/Civil Partnership Ownership (2)

11. Joint Non-Spouse/Civil Partnership Ownership

1. Private Landlord

The vast majority of UK properties are privately owned by individuals, many having been purchased as an investment rather than as a main residence.

The private investor landlord is taxed on the amount of letting income received less allowable expenses incurred on a fiscal year basis, as well as on any capital gain that may be made on the sale. Inheritance tax may be payable on the value of the property held at the date of death. Stamp Duty Land Tax (Land and Buildings Transaction Tax in Scotland, Land Transaction Tax in Wales) may be payable on the purchase of the property and VAT may be due if the business is trading.

Individuals who purchase property jointly, intending to rent for the long term are taxed on their share of the annual rental profits and/or any gains made on sale. Joint owners of property purchased with the intention to sell after restoration are likely to be in a 'trading partnership' with each being taxed as a self-employed 'property dealer' which could mean becoming liable to National Insurance contributions.

For a 'trading' partnership to exist there needs to be a degree of organisation with a view to making a profit (similar to that required for an ordinary commercial business). A partnership agreement is, therefore, recommended.

If the landlord has no other income, the annual personal allowance is deducted from any profit made on the letting income in full. If he or she has other income, the personal allowance either may not be available or be restricted such that any profits made will be taxed at the landlord's marginal rate of tax.

A 'Property Allowance' is available to individual landlords, the claiming of which removes the liability to tax should gross rental income be less than £1,000 (see Tip 33). Where gross income is more than £1,000, the

allowance can be deducted in place of the actual expenses amount where this produces a lower taxable profit. This will obviously be the situation where the expenses are less than £1,000. However, actual expenses should be deducted where this produces a loss in order to preserve that loss.

Depending upon the level of letting profit, being a sole investor could be more expensive in comparison with joint investor ownership. A sole investor will be taxed in full at his or her marginal rate of tax whereas, with joint investor ownership, the letting profit is split with each owner's share of the profit being taxed at his or her respective marginal rate. It will all depend on the tax rates of each respective investor.

For example, should a property be jointly owned 50:50 and one taxpayer be a basic rate taxpayer and the other a higher or additional rate taxpayer, the total tax bill will be reduced by 50% of the difference between the tax due at the higher and lower rates as compared with the tax that would be payable were the income received solely by the higher or additional rate taxpayer. Further tax reduction is possible should one investor be a non-taxpayer, as the full amount of that individual's personal allowance will be available for offset.

If the taxpayer is a basic rate taxpayer and the property has been put in joint names where one partner was a higher rate or additional rate taxpayer then the tax bill will increase.

Practical Point

The default split of joint ownership between husband and wife is 50:50. However, if it is more income tax efficient for the split to be different, then the profit may be divided according to actual underlying ownership of the property (if different and tax efficient) once HMRC has been notified (see Tips 9 and 10).