

# Buy-To-Let Tax Guide

2024 - 2025



# Introduction

**As a Buy-To-Let landlord it is important that you are aware of the associated tax regulations and the implications they may have on you and your investment.**

This is why Perrys Chartered Accountants has created this accessible guide to the tax issues relating to Buy-To-Let. Good tax planning is always key.

The way you implement, manage and run your tax affairs can have a major impact upon your property investments and their financial profitability.

Our comprehensive guide provides invaluable information about Self-Assessment Tax Return and Capital Gains Tax matters that you will encounter. From the property purchase to the eventual day of sale, this guide will help you to avoid the common tax pitfalls and help you to make tax work for your business and so ultimately provide you with extra cash to invest.

All figures in this guide are correct as of April 2024.

## Your route map to improved tax efficiency

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# 1 A property investment strategy

Before you purchase your first or next investment property, it is important that you have a strategy to minimise your tax liability.

If you don't, it is likely that you will pay more tax than necessary. For example, it is advisable that you have an overall 'Exit Plan' for the property – i.e. a plan for what you want to do with the property at the end of ownership. Considerations like Capital Gains Tax (CGT) planning and Inheritance Tax planning are ideally best addressed at the outset, prior to the purchase.

Although these tax bills are encountered at the end of the period of ownership, time spent planning before the actual purchase of the property can help minimise these bills when they do occur. It is also important that you have a Will to avoid unwanted disputes. The utilisation of tax breaks should also be considered at this stage and you should review your Inheritance Tax position on an ongoing basis in order to identify whether any additional tax planning is required.

# 3 Owning property through a Limited Company

One of the most commonly asked tax questions is whether holding properties in a Limited Company, rather than as an individual or partnership, will save tax. Unfortunately, there is no definitive answer as it depends on a large number of factors, such as your personal circumstances, funding options available to you and for how long you intend to hold the properties.

For further details, please see below.

## 3.1 What is a Limited Company?

A company holds a separate legal status to its owners. This means that if you use a Limited Company to buy a property, its name will appear on the title deeds rather than yours. The ownership of the company depends upon who holds the shares (the shareholders).

There only needs to be one shareholder, so you could hold the company's only share and be the sole owner. Alternatively there can be many shareholders. Shareholders are entitled to their share of the profit in the company and this is usually paid out in the form of dividends.

## 3.2 How is rental income taxed in a Limited Company?

Instead of Income Tax, Limited Companies pay Corporation Tax (CT) on their profits. From 1 April 2023, new corporation tax rates have applied. A main rate of corporation tax of 25% will apply for companies with profits over £250,000 and the small profit rate of 19% will apply for companies with profits below £50,000. For companies with profits between £50,000 and £250,000 a marginal rate of corporation tax will apply. The marginal tax rate is an effective tax rate of 26.5% on the profit above £50,000.

If you're a higher rate taxpayer, you would pay 40% on your net rental income if you owned the property personally, (45% if your total income exceeds £125,140). In a Limited Company, the company would only pay 19%-25% on rental profits, provided that the rental property is held within a company.

From April 2024, the first £500 of dividends received by an individual will be tax free. Thereafter, when dividends received fall within an individual's basic rate tax band, there will be an Income Tax charge of 8.75%.

# 2 Single ownership or joint names?

It is advisable to consider single or joint ownership before purchasing a property. It is much easier to decide upon ownership at this stage than it is to change it later on.

If your partner\* is not working, you may wish to arrange the ownership so that they maximise their tax-free income allowance of £12,570. If you have already purchased your property, you will need to arrange the transfer of the property into your partner's name.

In England and Wales, HM Revenue and Customs defines owners as follows:

- Those with an equal interest in the property are 'joint tenants'. When two people own property as joint tenants any rental income will normally be split equally between them 50%-50% for tax purposes.
- Those with separate and identifiable shares, for example 85% and 15%, are 'tenants in common' and any rental income will be split in this way for tax purposes. However, spouses should make a declaration on HMRC Form 17 and submit this to HMRC within 60 days of the property purchase or change in ownership. Without a Form 17 declaration, spouses will be taxed on an equal share of the rental profit from a jointly owned property, irrespective of their actual ownership proportion. If you and your partner already own the property as joint tenants, it is quite simple to change to tenants in common, but there may be a Stamp Duty Land Tax charge where the property is mortgaged.

\* Whether you are living together as a married couple, civil partnership or operating as a partnership in business, it is important that expert financial advice is sought.

For higher rate taxpayers, they will pay Income Tax equivalent to 33.75% of the dividends received (39.35% if your total income exceeds £125,140).

## 3.3 How are Capital Gains taxed in a Limited Company?

Unlike sole owners and partnerships, a company doesn't pay CGT on any capital gains it makes on the sale of property – it pays CT instead. Any capital gains are added to the company's rental profits in the year and the company then pays CT at 19% to 25%, depending on the profits made within the company. As a sole owner, the CGT rate on the disposal of residential property is 18% for a basic rate taxpayer and 24% for a higher rate taxpayer (28% if sold before 5 April 2024).

A company also doesn't qualify for the annual CGT allowance or other reliefs available to individuals. Therefore, in many cases, you could be worse off owning rental properties in a Limited Company than in your own name but it is always best to seek advice from a specialist property accountant.

## 3.4 Are there any other tax considerations to holding investment properties in a Limited Company?

An annual tax charge may be incurred on non-natural persons (a company, a partnership with a company member or a collective investment scheme) who own UK residential dwellings, under the Annual Tax on Enveloped Dwellings (ATED) rules. From 2024/25 ATED will apply where the single dwelling is worth more than £500,000 on 1 April 2022, or at acquisition if later. Reliefs may be given for example where the dwelling is let to a third party on a commercial basis, or the property forms part of a property developers trade, but you can only claim them if an ATED return is completed and submitted.

# 4 Stamp Duty Land Tax (SDLT)

## 4A) Residential Properties

SDLT on residential properties located in England and Northern Ireland is now calculated on a banding structure, at the following rates:

### Rates from 1 October 2022

Property Price	Rate
Up to £250,000	0%
The next £675,000 (£250,001 - £925,000)	5%
The next £575,000 (£925,001 - £1.5m)	10%
The residential amount (Over £1.5m)	12%

If six or more properties are purchased in one transaction then the rates and thresholds for non-residential properties apply. The total value of all properties will establish the SDLT payable, but Multiple Dwellings Relief may apply to reduce the amount payable. Multiple Dwellings Relief will however be abolished from June 2024.

For properties over £500,000 an SDLT rate of 15% is applied if the property is acquired by certain non-natural persons (a company, a partnership with a company member or a collective investment scheme), although exemptions may be available.

For residential property purchases from April 2016, where the commerciality is a second home or Buy-To-Let investment and the value exceeds £40,000, an additional 3% SDLT charge will be payable on top of the existing rates.

There is also a 2% surcharge on residential properties bought by non-UK residents on or after 1 April 2021. The 2% surcharge applies on top of all other residential rates of SDLT including the 3% higher rate surcharge.

For new residential leasehold purchases, SDLT is charged on both the:

- Purchase price of the lease (the lease premium) using the above rates.
- Net present value (NPV) of the rent over the life of the lease.
- If the NPV exceeds the SDLT threshold, you'll pay 1% of the portion of NPV exceeding £250,000.

## B) Non-Residential and Mixed Use Land & Property

Non-residential property includes:

- Commercial property, e.g. offices, shops, industrial units, etc
- Agricultural land or forests
- Any other land or property which is not used as a residence
- Six or more residential properties purchased in a single transaction

The rates and thresholds for freehold purchases and lease premiums are:

Transaction Value Band	Rate
Up to £150,000	0%
The next £100,000 (£150,001 - £250,000)	2%
The residential amount (Over £250,000)	5%

For leasehold sales and transfers, if the NPV exceeds the SDLT threshold, you'll pay 1% of the portion of the NPV exceeding £125,000.

The rate bands and thresholds for rent paid under a lease are:

NPV of rent	Rate
£0 - £150,000	0%
£150,001 - £5,000,000	1%
£5,000,001+	2%

# 5 Finance costs

**As with many tax issues relating to Buy-To-Let, individual circumstances will dictate the level of relief on finance costs that may be available, and each case should be assessed on an individual basis. Previously, all finance costs and interest payable on borrowings taken out to fund your Buy-To-Let business was deducted when calculating rental profit. From 2017/18 the rules regarding finance charges have changed as a result of the Summer Budget 2015, please see Section 11 for details.**

Finance costs can include a mortgage, a personal loan, or even an overdraft. This means that the deductible proportion of interest payable on borrowings secured on a Buy-To-Let property or residential property used to repair or purchase a Buy-To-Let property can be off-set against the rents received.

In certain circumstances tax relief can also be enjoyed on the interest payable on borrowed money which is used to fund personal items. This is only applicable if the borrowing is secured on your Buy-To-Let property and is equal to, or less than, the value of the Buy-To-Let property at the time that the property became part of your Buy-To-Let portfolio. If you wish to borrow money for personal use which is in excess of the value of your property at the time it became part of your Buy-To-Let business, the interest payable on this excess is not eligible for tax relief. This is an area of tax planning that is highly dependent on each individual case and one that we recommend should be discussed with a specialist property accountant.

Choosing the right mortgage, such as 'interest only' or 'repayment' is important because it may provide you with significant financial benefits. The structure and precise timing of the loan facilities are also very important. It is normally advisable that you take out life cover for the mortgage on any investment property you are purchasing. The beneficiary of the policy should not necessarily be the policyholder.

The policy could be written in trust to the beneficiaries of your estate to mitigate Inheritance Tax on death.



## 6 Separate bank account

**You should hold a separate bank account for your rental business to record all rental income received and expenditure incurred.**

There is an obligation to record details of all income and expenditure in respect of property activity. You are also required to retain the records and provide these to HM Revenue and Customs in the event of an enquiry. Records can be held in either paper or electronic format.

We would recommend discussing your books and records with your accountant, in order that they are sufficient for both their use and also your management of the property portfolio.

## 7 Income Tax

**As a Buy-To-Let property investor you are liable to pay Income Tax on rental and other income you receive from your property. This is the case whether or not you are resident within the property and whether or not the property is furnished.**

You have to pay Income Tax if the total of your taxable income is greater than your tax allowances. Tax is payable on the rental income after allowable expenses/deductions have been taken into account.

However, it is possible that no tax will be payable, for example, if your property related costs exceed the rent you receive.

It is your responsibility to declare your rental income to HM Revenue and Customs. It is important that you understand how Self Assessment works and that you make provision for your tax payments and be aware when they are due. A specialist property accountant will help you estimate your likely tax liability and advise you about when this should be paid.

If you have been in receipt of rental income and are worried about bringing your tax affairs up to date, you can make a simple disclosure under the Let Property Campaign. Please contact your local Perrys Office for more information.



## 8 Income Tax for landlords living outside the UK

The letting agent collecting the rent on behalf of a non-resident landlord (one living outside the UK), must deduct tax from the rental income and pay the tax deducted to HM Revenue and Customs, unless a written exemption has been received from HMRC not to do so. If you are an overseas landlord, you can apply to have the rent paid gross by completing form NRL1.

So long as your tax history is good and your tax affairs are up to date, you should be issued with a certificate. This will authorise the letting agent to pay you rent without deduction of tax. At the end of each year, you are obliged to submit a UK Tax Return showing details of your rental income and expenditure. Most non-resident landlords appoint an accountant to handle tax affairs on their behalf.

You need to tell HM Revenue and Customs if you have sold or disposed of any UK property or land within 60 days of conveyance by submitting a non-UK resident Capital Gains Tax return. A report is required in all circumstances, even if a Self-Assessment Tax Return is being filed, or if there is no tax liability on the disposal of the property. The due date for the tax payment will be within 60 days of conveyance.

## 9 Self Assessment Tax Return

**Rental income must be declared on a Self-Assessment Tax Return. As HM Revenue and Customs assess income individually, properties that are jointly owned require Self-Assessment Tax Returns to be completed by each legal owner. You will need to prepare Rental Income and Expenditure Accounts which detail all the expenditure and costs involved in letting property (see 'Allowable Expenses').**

This means keeping separate details of all income and expenditure incurred on all lettings. For example, detailed records of all borrowings should be maintained to support loan interest claims. You need to make clear which parts of your mortgage have been used to fund Buy-To-Let properties. This can be done by using a simple balance sheet to show exactly how much capital has been invested in the letting business. Records must be kept for six years. They should exclude any deposits you may have received from new tenants when calculating taxable rental income. Deposits are not taxable unless they become non-returnable under the tenancy agreement.

You should only include the retained deposit when it is used to cover the costs it was designated to prevent, such as renewals, repair or legal fees.

Don't forget, you have a legal responsibility to notify HM Revenue and Customs of any liability. There are strict tax deadlines and late returns not only incur penalties but also increase the likelihood of an enquiry into your tax affairs.

# 10 Allowable expenses

**Prior to the property letting, care needs to be taken when assessing expenses prior to the property letting, as to whether these are deductible from rents received.**

Costs associated with the purchase or improvement of the property are classed as capital and therefore not allowable deductions in the rental accounts. Relief for these costs will be given on the eventual sale of the property.

However, many other costs incurred prior to letting a property may be claimed, for example, pre-letting advertising and management fees.

## Ongoing

Only those expenses incurred "wholly and exclusively" in generating income are allowable.

- **Water rates** - You can include the full amount of water, sewerage and any other rates paid on the property, if these are not paid by the tenants.
- **Insurance** - You may include all insurance policies paid by you in connection with your property.
- **Service charge, ground rent** - You can include the service charge and ground rent on the let property in question if these are not paid by the tenant.
- **Council Tax** - In certain circumstances, a landlord may be liable for Council Tax. This could then be included as an allowable expense.
- **Legal** - Legal fees in respect of ongoing tenancies are allowable.
- **Accountancy** - Any accountancy costs can be offset as long as they relate directly to the let property.
- **Repairs and maintenance** - When making repairs to your let property you may be able to go beyond replacing 'like with like' and make an improvement, although you need to be careful about how much of an improvement you make. For example, HM Revenue and Customs are unlikely to permit the replacement of a tatty bathroom with a spa bath and other luxury items. However, HM Revenue and Customs may be agreeable to replacing wooden window frames with UPVC. Professional advice should be sought from a specialist property accountant.
- **Management or Letting Agent's fees** - You may claim tax relief on any management or letting agent expenditure. On request, at the end of the tax year, the letting agent should be able to provide you with details of your rental income and management fees.
- **Replacement of Domestic Items Relief** - Landlords can deduct the actual costs of replacing furnishings within unfurnished, part furnished and furnished properties.
- **Motor vehicle costs for visiting/inspecting the property** - As long as they are appropriate to the circumstance and are incurred visiting the rental property, petrol and vehicle costs are an allowable expense. You should speak to your accountant to identify what is and isn't deemed to be an acceptable expense.
- **Advertising** - Any costs you incur advertising for tenants to fill your rental property are allowable.
- **Rent a Room** - Where rental income is derived from letting a room within your main residence, Rent a Room Relief of £7,500 may be deducted from the rents received when calculating the taxable amount.

# 11 Restriction of relief on finance costs

Since the 2016/17 tax year individuals that receive rental income on residential property in the UK, or elsewhere, and incur finance costs, such as mortgage interest, are affected by the restriction of relief on finance costs. The exception being where the property meets all the criteria to be a furnished holiday letting, which will be abolished from April 2025.

The measure restricts relief for finance costs on residential property to the basic rate of income tax. Landlords are no longer able to deduct all of their finance costs from their property income to arrive at the taxable property profits but will instead receive a basic rate reduction from their income tax liability.

Individuals will be able to claim a basic rate tax reduction from their income tax liability on the portion of finance costs not deducted in calculating the rental profit. Excess finance costs may be carried forward to following years, if the tax relief has been limited to 20% of the profits of the rental business in the year.

# 12 Property sale Capital Gains Tax (CGT)

Any profit made on a property held as an investment (other than a main residence) is subject to CGT at 18% if your total income and gains are within the basic rate tax threshold. If your total income and gains exceed the basic rate threshold, CGT is charged at 24% (28% for sales before 5 April 2024).

For UK residential properties sold after 6 April 2020, you need to tell HM Revenue and Customs by completing an online declaration within 60 days of conveyance.

A declaration is not required under certain circumstances such as the sale qualifies for full Private Residence Relief (PRR), sale was made to a spouse/civil partner or no CGT is due on the sale. The due date for the payment of any CGT liability will be within 60 days of conveyance. Your CGT bill can be reduced by a number of reliefs summarised on page 7.

# 13 Tax breaks allowable against CGT

There are a number of tax breaks available, especially if you have at some time lived in the Buy-To-Let property you are selling. For example:

## Private Residence Relief

You may be able to claim an exemption against Capital Gains Tax for the time you have lived in the property as a main residence even if this is only for a short period during the overall ownership. Also, for properties sold after 6 April 2020 you can claim an exemption for the final 9 months of ownership (regardless of whether you lived there during this time or not).

## Letting Relief

From April 2020 the rules for Letting Relief were changed and is now only available if you lived in the property at the same time as your tenants. A maximum relief of up to £40,000 per owner is available and is reduced dependent on other factors. Previously Letting Relief was available provided the property was your main residence at some point and there was no requirement to occupy at the same time as your tenants.

## Capital Gains Annual Exemption

Everyone can make tax free capital gains of up to £3,000 for the 2024/25 tax year. A reduction from the £6,000 annual exemption in 2023/24.

A jointly owned asset therefore will need a chargeable gain in excess of £6,000 before Capital Gains Tax becomes payable if owned equally.

We recommend that you seek advice from a specialist to outline the potential impact on future Capital Gains Tax liabilities.

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# 14 Frequently Asked Questions

## FAQ

### Q: What is the best way to go about building a portfolio?

A: There is a general assumption that in order to create deposits for new properties, existing property has to be sold as the value of the property portfolio increases. This is not necessarily the case. From a CGT point of view, a portfolio can be built up by using the equity as deposits against new purchases without selling the original properties. This certainly means significant savings when one is looking at Stamp Duty Land Tax (SDLT), legal costs and CGT. CGT becomes payable only when you dispose of a property.

### Q: Why do I make so little money on my property and yet still have to pay tax?

A: This is likely to be because from a cash flow perspective, you may make little excess funds over the mortgage payments. However, only the finance interest element of the payment receives relief for tax purposes. The capital element of a repayment mortgage, along with any attached insurance policy, or any endowment payments are not tax deductible.

### Q: Should I put my properties into a limited company?

A: There can be instances when purchasing a property through a limited company can be beneficial but it is best to consider all cases individually and seek advice from an accountant in these circumstances.

Any decision would first require an understanding of the Corporation Tax system and the options for tax efficient remuneration from the business. With the changes to restrict tax relief on finance costs for individuals, limited company ownership may be more attractive. However, moving personally owned properties into a limited company could crystallise a CGT liability and give rise to an SDLT charge.

### Q: Are there any VAT implications on the rental of Buy-to-Let properties?

A: If you are purchasing a residential property to let on a traditional 6 month or 12 month Assured Shorthold Tenancy (AST) agreement, then you do not need to be concerned with VAT. However, when the letting activity is of a short term nature, such as Furnished Holiday Lets (FHLs), bed & breakfast, hotels and similar establishments, VAT will need to be considered to ensure that you remain compliant with the legislation. We would recommend that you discuss this complex area with a specialist property accountant.

### Q: How important is it that I register with HM Revenue and Customs?

A: You have an obligation to register with HM Revenue and Customs and to submit Self-Assessment Tax Returns to them. There are penalties for late registration and submission. You should notify the tax office by 5 October following the end of the tax year in which income was first received.

### Q: Are there any upcoming changes to be aware of?

A: HMRC are introducing Making Tax Digital (MTD) for landlords who own properties personally. Originally MTD was to be introduced from April 2024 for landlords with rental income over £10,000. However, this has been delayed to April 2026 for landlords with rental income above £50,000 and April 2027 for landlords with rental income between £30,000 - £50,000.

Under MTD, landlords will be required to make quarterly submissions to HMRC declaring their rental income and expenses. The submissions will need to be made using accounting software or using spreadsheets and submitting via bridging software. For advice on the available software options, please contact your nearest Perrys office.

### Q: How can I maximise the benefits from my mortgage/interest?

A: It is important to understand the benefits that can be realised by effectively mortgaging your Buy-To-Let properties. Because the interest payable on any borrowings taken out to fund your Buy-To-Let properties enjoys tax relief, and the mortgage interest on your own home used to fund your residential property or personal items does not, it makes sense to have lower borrowings on your main residence than on your let property. For example, mortgage lenders will work to a certain loan to value, and it makes sense to ensure that when the Buy-To-Let property is purchased it is mortgaged to the maximum amount and so obtains maximum tax relief. If you are paying £7,000 interest per year on your own home's mortgage and only £4,000 interest per year on your Buy-To-Let mortgage. If you were to reduce the interest payable on your own mortgage to £4,000 and increase your yearly interest on your Buy-To-Let property to £7,000 you are likely to reduce your tax liability due to receiving partial relief on the increased mortgage interest. This is an important planning area and one that we recommend you discuss with a specialist property accountant.

### Q: What is the tax position if I have lived in the property I am renting out?

A: If you have lived in a property that you subsequently decide to let out, you are eligible to claim an exemption against CGT for the time you lived in the property as a main residence. You can also claim an exemption for the final 9 months of ownership (regardless of whether you lived in the property during this time or not). Letting relief may also apply – see section 13 above. The combination of Private Residence Relief and Letting Relief can significantly reduce the chargeable gain on the disposal of your main residence.

# Summary of our Top Tax Tips

Claim allowable expenses incurred both prior to the start of the letting and for ongoing expenses.

Ensure that you keep up to date with recent changes and seek early advice as to further tax planning options available.

Have a tax and management strategy, including an 'Exit Plan' before purchasing an investment property. This could potentially save a fortune.

Take out the right mortgage!

Consider ownership options - single, joint names or limited company - at the onset.

Keep detailed records of lettings income and expenditure - essential when completing the Self Assessment Tax Return.

Set up a separate bank account for the lettings business and consider all options for record keeping.

Write a will!

Perrys Chartered Accountants offer business and tax planning advice. Our aim is to help our clients to increase their profits and reduce their tax liabilities and in doing so provide peace of mind. We enjoy a strong reputation for truly looking after our clients. We are a friendly face with advice.

We are happy to offer a complimentary, no obligation, initial consultation on any Buy-To-Let tax matter arising from this guide. So please get in touch if you wish to discuss any aspect of Buy-To-Let investment, or would just like to chat about how Perrys Chartered Accountants can help your business to grow.

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