

A BEGINNER'S GUIDE TO UK PROPERTY TAX

By **Shaz Nawaz**

Understanding property tax is crucial when stepping into the UK property investment world. It's not just about making sure you are compliant; tax planning can increase your profits and streamline your property business. This brief introduction on why it's important to think about tax implications from the beginning will break down critical considerations for new investors and focus on the pros and cons of owning property personally versus through a limited company. We will also look at allowable expenses, trivial benefits, and best practices for documenting everything.

Owning property: Limited company vs personal name

When you start investing in property, one of the first and most important decisions you'll make is whether to buy property personally, in your own name, or through a limited company. Both options have distinct advantages and disadvantages, and the choice largely depends on your investment goals – desired cash flow, capital gain and/or portfolio size, for example – and personal circumstances, such as your income.

Owning property in your name

Traditionally, many investors have chosen to purchase properties in their own name. Here are a few reasons why:

Simplicity. Buying in your name is straightforward. You don't need to set up or manage a limited company; the legal and administrative responsibilities are less onerous.

Capital Gains Tax annual exemption.

Individuals can benefit from the annual Capital Gains Tax (CGT) allowance when selling a property. For the 2024/25 tax year, this is £3,000 (£1,500 for Trusts). Gains beyond this allowance are taxed at 18% (for

basic-rate taxpayers) or 24% (for higher-rate taxpayers) on residential property.

Mortgage availability. Mortgages for personal purchases are generally more accessible and may offer better rates than those available to companies.

Ease of setup. Buying in your name doesn't require the setup or administration of a company. It's straightforward and has lower upfront costs.

Tax rates. Rental income is taxed as personal income. The rates are:

- 20% for basic-rate taxpayers
- 40% for higher-rate taxpayers
- 45% for additional rate taxpayers

One downside is that mortgage interest relief has been capped. Instead of deducting interest as an expense, you receive a 20% tax credit. This significantly impacts higher-rate taxpayers.

Who is it for?

If you're a basic-rate taxpayer or plan to invest in only a few properties, owning property in your name might make sense.

Owning property through a limited company

Using a limited company for property investment is increasingly popular, especially for higher-rate taxpayers or those building larger portfolios.

Tax efficiency. Companies pay corporation tax on profits, often lower than personal income tax rates. Additionally, all mortgage interest is deductible as an expense.

Retaining profits. You can leave profits in the company to reinvest in more properties, deferring personal tax liabilities. If you withdraw profits as dividends, you'll pay dividend tax at:

- 8.75% (basic rate)
- 33.75% (higher rate)
- 39.35% (additional rate)

Inheritance planning. Limited companies offer more flexibility in passing on assets to heirs through shares, potentially reducing inheritance tax (IHT) liabilities.

Costs and admin. Running a company involves additional costs (e.g., accounting fees) and administrative responsibilities, such as filing annual accounts with Companies House.

Who is it for?

A limited company could be more tax-efficient if you're a higher-rate taxpayer, plan to reinvest profits, or aim to build a large portfolio.

Trivial benefits: A little-known perk for investors

As a property company's director (or employee), you can benefit from trivial benefits. These are small, tax-free perks that companies can provide to directors or employees, subject to the following conditions:

- The benefit must cost £50 or less.
- It cannot be cash or a cash voucher.
- It cannot be a reward for work or performance.
- The annual cap for directors is £300.

Examples

- A gift card (not exceeding £50).
- Flowers, food or a bottle of wine for a special occasion.

While £300 may seem small, it's a tax-free bonus worth considering.

“Getting into property was one of the best things I've ever done. I still work (including writing these articles) but investing has meant if I wanted to stop, to travel or for whatever reason, I could, and the bills would still be paid. It can be stressful and of course, the stakes are high – it's a lot of money, but done well and it's a game changer.”

Alex Daley, YPN



Allowable expenses for property investors

To reduce your tax bill, it's vital to claim all allowable expenses provided they are "wholly and exclusively" for your rental business. Here's a breakdown of some of the common deductible expenses:

1. Mortgage interest (limited company)

Companies can deduct all mortgage interest as a business expense. However, due to restrictions introduced in 2017 (S24), this is different for personally owned properties.

2. Maintenance and repairs

Routine repairs (e.g., fixing a boiler or repainting walls) are allowable. However, improvements (e.g., adding a conservatory) are not deductible as revenue expenses but can reduce your CGT when you sell.

3. Property management fees

If you use a letting agent, their fees are deductible.

4. Professional services

Fees for accountants, solicitors, or surveyors related to the property business are allowable.

5. Utility bills and council tax

If you cover these for your tenants, you can claim them as expenses.

6. Travel

Travel costs for managing your properties (e.g., visiting a rental property or meeting a letting agent) are deductible. Keep records of mileage or receipts.

7. Insurance

Landlord insurance premiums, including buildings, contents, and public liability cover, are fully deductible.

8. Office expenses

If you run your property business from home, you can claim a proportion of household expenses, such as electricity, heating, and internet. Alternatively, use HMRC's flat rate.

9. Marketing costs

Advertising your property for rent through online platforms or traditional media is an allowable expense.

10. Furniture and appliances

The "replacement of domestic items relief" allows you to deduct the cost of replacing furniture, furnishings, or appliances provided to tenants. This doesn't apply to initial purchases.

Food, travel, and vehicles: What can you claim?

Food and drink

Food costs are rarely deductible for property investors, except in specific circumstances (e.g., if you're away from home overnight on property business). Always keep receipts to justify the claim.

Travel

For travel to manage your properties, you can claim:

- **Mileage allowance: 45p/mile for the first 10,000 miles, then 25p/mile.**
- **Public transport costs.**

Ensure travel is strictly for business purposes, as personal travel is not allowable.

Vehicles

If you use a vehicle solely for property business, you can deduct expenses like fuel, insurance, and servicing. Alternatively, use the mileage allowance method. The tax treatment differs depending on whether you use an incorporated or unincorporated structure.

"Christmas" and summer parties: Are they deductible?

Yes! Company directors/employees can claim costs for Christmas or summer parties, but there are rules:

- **The event must be open to all employees (if you're the only employee, that's fine).**
- **The cost must not exceed £150 per attendee and includes an employee's spouse.**
- **The £150 limit includes VAT and additional costs like transport and accommodation.**
- **Only one party per year is allowable (ie, the £150 allowance is 'per year' not 'per party').**

Exceeding the limit means the entire amount becomes taxable, so stay within the allowance.

Documenting expenses: Why it matters

HMRC is increasingly scrutinising property businesses, so meticulous record-keeping is essential. Good documentation will not only ensure compliance but can also make the most of your expense claims.

Tips for record-keeping

Use software. Digital tools like Xero, QuickBooks, or Landlord Vision can streamline record-keeping and prepare for HMRC's Making Tax Digital requirements.

Keep receipts. Always retain receipts or invoices for expenses. Digital copies are acceptable but make sure they're clear and legible.

Log travel. Maintain a mileage log detailing each journey's purpose, date, and distance.

Separate bank accounts. Use a dedicated bank account for your property business to simplify tracking income and expenses.

Annual review. Review your accounts annually with a qualified accountant to ensure you've claimed everything allowable and are prepared for any tax changes.

Conclusion

Understanding property tax is a cornerstone of successful property investment. Deciding between owning property personally or through a limited company is your crucial first step, with tax efficiency often favouring the latter for larger portfolios. Beyond that, knowing what you can expense – from mortgage interest to parties – and documenting everything accurately can save you thousands in taxes each year.

Consulting with a property tax expert is invaluable as you grow your property portfolio. They can help you navigate the ever-evolving tax landscape and develop strategies that are tailored to your goals. After all, the less you pay in tax, the more you can reinvest into building your future.

By taking the time to understand the basics now, you're setting yourself up for long-term success.



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