Whitings
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Property Matters Newsletter

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This edition of our property newsletter is one in which has been influenced by the recent budget, during which there was an announcement in relation to the treatment of Furnished Holiday Lettings, and my colleague Harriet Sim has provided her views on the changes that are to be made.

There has been some good news with Capital Gains Tax on the sale of residential property, with a reduction in the higher rate of tax to 24% from 6 April 2024, and this is certainly welcome news.

Again there have been minor changes to Stamp Duty Land Tax (SDLT) for first time buyers, but for those investing in a number of properties there are some major announcements which Shamus Chaplin explains.

Sarah Lockhart-White covers ATED deadlines for us and Byron Roberts discusses how Making Tax Digital for Income Tax could affect our property clients.

Using rental losses to save tax

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What happens if your rental or Furnished Holiday Let (FHL) business makes a loss in the tax year and how can you use these losses to save tax.

For a business to make a taxable loss, the taxable expenses will be higher than the taxable income. These losses can be used in a few different ways:

- If you have a single property business, then the losses can only be used against the future profits of that business, this is the same regarding FHL.
- If you have multiple properties in the same business, the loss in one of your properties will be offset against the taxable profits in the properties.
- This will reduce the taxable profits until the loss has been fully utilised, or if there is still a loss remaining after all the taxable profits have been reduced then this will be carried forward and used against any future taxable profits that the rental business makes in future tax years.
- If a loss is carried forward in a rental business, there is no limit of how many years the loss can be carried forward. If, however the business ceases to trade then any unused losses will be lost.

For more information and advice on FHL and rentals, get in touch with your usual Whitings LLP contact or your local Whitings LLP office today.

The end of Furnished Holiday Lettings

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The recent Budget announcements will bring an end to the tax advantages afforded to the owners of Furnished Holiday Lettings (FHLs) and set them apart from the owners of normal residential properties.

At present, qualifying FHLs provide a number of tax advantages:

- Unrestricted tax relief for mortgage interest
- Entitlement to claim capital allowances, including on initial purchases
- Possibility of making higher pension contributions
- Reduced rate of CGT on sale
- A FHL which is held jointly by a married couple or civil partners is not applied to the default 50:50 split for income tax purposes

What does the proposed change mean for you?

Tax relief for mortgage interest will be restricted to the basic rate of tax. This can have multiple implications, not only potentially pushing your income into a higher tax bracket, but also impact on things like eligibility to claim certain benefits.

Claims for capital allowance will no longer be possible, and initial purchases of furniture and fixtures will not be tax deductible, only their replacement.

There will be changes for pension contribution calculations with FHL profits considered to be “net relevant earnings” for pension purposes whereas residential lettings are not, which may lead to a reduction in the maximum contributions allowing for tax relief.

Sales of FHLs before 5 April 2025 will still be eligible for beneficial tax relief, which enables a gain to be taxed at a rate of 10%. Sales after this date will be charged at either 18% or 24%, under current proposals.

If a married couple has been splitting their FHL income at anything other than a 50/50 but own the property under a joint tenancy agreement, they will need to consider changing to tenants in common and making an election to HMRC.

FHL owners should be taking the next 12 months to ensure they are aware of how the changes will affect them, and to ensure any appropriate action is taken in good time.

Removal of Multiple Dwellings Relief

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The reasoning

On 6 March 2024, the abolition of the Stamp Duty Land Tax (SDLT) relief known as Multiple Dwellings Relief (MDR) was announced.

HMRC's tax reliefs evaluation programme has determined that MDR has not satisfied its original objectives. They have concluded that there have been numerous cases where the relief has been abused and it is no surprise why they are keen to abolish this costly relief.

Background

MDR was first introduced in 2011 to help boost investment into the private rented sector. It is a relief that applies to the SDLT charge where two or more dwellings are included within the same transaction (or linked transactions). The relief applies to residential property (dwellings), as the name suggests, and in some cases mixed use properties.

The relief is most commonly seen in action where a block of flats is being acquired or the incorporation of a property business is taking place. However, there are many other cases where it may apply and advice should be obtained.

Cut-off Date (1 June 2024)

Where contracts have been exchanged before 6 March 2024 the relief will apply regardless of when the completion takes place, however, this is conditional upon there being no amendment to the contract after 6 March 2024.

Where contracts are exchanged on or after 6 March 2024, completion must take place before 1 June 2024 in order for the relief to apply. Where completion takes place on or after 1 June 2024 MDR will not apply.

ATED reminder - Deadline 30/4/24

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Annual Tax on Enveloped Dwellings (ATED) is an annual tax charge payable by companies, partnerships (with at least one corporate partner) and certain collective investment schemes that own UK Residential properties exceeding £500,000.

The annual chargeable period starts on 1 April each year and both a return should be submitted online to HMRC together with any tax paid within one month of the start of the chargeable period to avoid hefty penalties and interest.

Valuation of property

The ATED charge is based on the taxable value of the property. Properties are revalued for ATED purposes every five years. The last revaluation date was 1 April 2022, and it is this value, or if acquired after 1 April 2022 the properties cost, that will determine whether the properties fall within the scope of ATED for the 2024/25 period.

Reliefs available

There are various ATED reliefs available, such as for property rental businesses and property developers and farmhouses occupied by a farm worker. The rules for claiming the relief should be checked closely as occupation by a non-qualifying individual may deny the relief being available. Where a relief applies it must be claimed on a relief declaration return which must be submitted to HMRC by 30 April 2024.

Making Tax Digital for Income Tax: Coming soon

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Over the past few years rents have been increasing and will continue to increase as inflation remains high. Many landlords will now be affected or will be coming close to the qualifying limits and with April 2026 fast approaching for those with qualifying income over £50,000 and from April 2027 for those with qualifying income over £30,000, action needs to be taken.

With this additional compliance coming into place, HMRC have estimated that those within the £30,000 to £50,000 threshold may incur a transitional cost of £350 plus an additional annual cost of £110 (totalling £460).

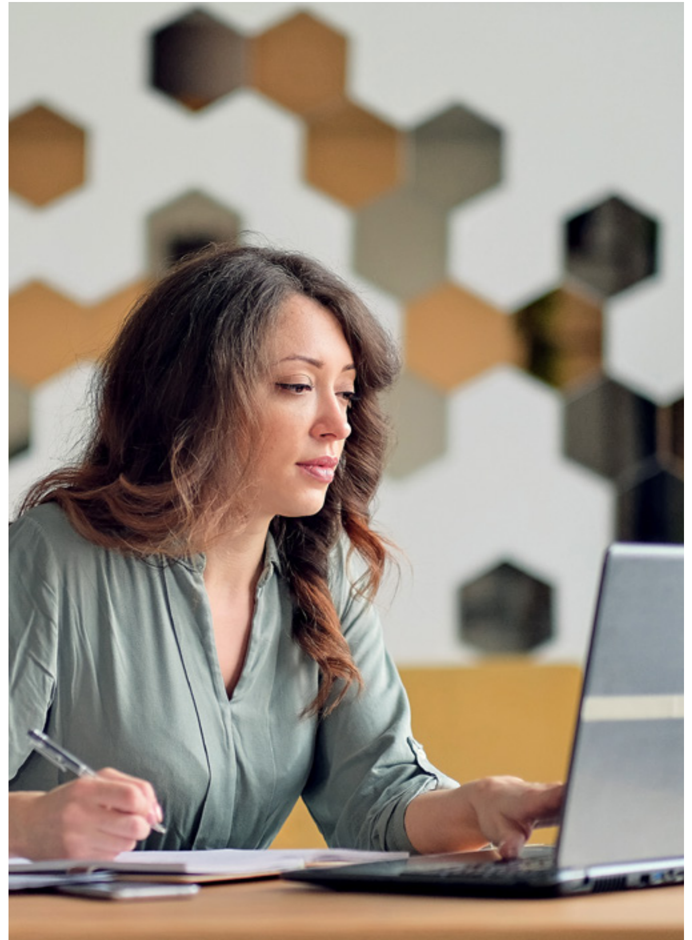
In addition there is a requirement to change your basis period to the tax year (31 March or 5 April) and you need to do this before MTD ITSA starts. If you do not change your basis period, you would effectively have two self-assessment tax returns always open and available to enquiry from HMRC.

Affected individuals will need to:

- Keep accounting records in a digital format (using suitable software).
- File quarterly returns to HMRC to including cumulative reports details of their income and expenditures.
- Submit an End of Period Statement (EOPS) after the tax year, plus a final declaration, to finalise their affairs.

Choosing the right software for you

HMRC have a list of software providers which are compatible for the submission for the quarterly reporting (www.gov.uk/guidance/find-software-thats-compatible-with-making-tax-digital-for-income-tax). However we are already ahead of the game and are teaming up with a number of software providers including Hammock, to make the MTD ITSA process for residential property owners less stressful.



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