Tax guide for residential landlords in the UK

Property taxes can be a complicated subject, especially for new landlords. There are many different types of taxes property investors and buy-to-let landlords may be liable to pay, in addition to Income Tax or Corporation Tax. This short guide provides an overview of the main taxes that you should be aware of when considering investing in residential property.

Stamp Duty Land Tax

Stamp duty Land Tax (SDLT) is payable on the purchase of residential property in England and Northern Ireland (In Wales, Land Transaction Tax applies and In Scotland, Land and Buildings Transaction Tax applies, both of which have differing rates). This is due within 14 days of the sale completing.

If you do not own any residential properties (and you are not buying the property as a first-time buyer, for your main or sole residence) you pay Stamp Duty Land Tax in increasing portions of the property price above £125,000. For subsequent purchases above £40,000 a 3% surcharge applies. For company purchases, generally the higher rate applies. Please note that up to 30 September 2021 stamp duty rates were reduced, die a a temporary stamp duty holiday.

(Please see the table overleaf)

Stamp Duty Land Tax on multiple purchases

If you are purchasing multiple linked properties (such as from the same developer). You are charged Stamp Duty Land Tax on the total linked purchase price. You can however claim Multiple Dwelling Relief, which is the greater of 1% Stamp Duty Land Tax, or the Stamp Duty Land Tax equivalent of purchasing each property at the average price for the total purchased, multiplied by the number of properties you are purchasing.

If you are purchasing six or more properties, you can choose to pay either the non-residential rate of Stamp Duty Land Tax (which is lower), or the higher rate, using Multiple Dwelling Relief. Whether the non-residential rate or the higher Multiple Dwelling Relief rate is more tax efficient will be dependent upon the total purchase price and the number of linked properties purchased.

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Stamp Duty Land Tax rates from 1 October 2021 are as follows:

Property (or lease premium or transfer value) Stamp Duty Land Tax rates

First residential property*		**Additional residential properties (over £40,000)**	
Up to £125,000	Zero	Up to £125,000	3%
£125,001 to £250,000	2%	£125,001 to £250,000	5%
£250,001 to £925,000	5%	£250,001 to £925,000	8%
£925,001 to £1.5 million	10%	£925,001 to £1.5 million	13%
Any portion above £1.5 million	12%	Any portion above £1.5 million	15%

*Not a first-time buyer buying their main residence, which is exempt up to a purchase price of £500,000

Tax

Income derived from letting residential property is subject to tax. Deductions can be made for certain revenue expenses, including letting agents' fees, although interest relief has been capped as a 20% tax credit since April 2020 (for properties held personally). The rates of tax that will apply will depend on how the purchase is structured and whether it is held by an individual, a trust, a partnership or a company.

Holding Property Personally

If you hold property personally, you will be taxed on the profit at your regular tax rate, dependent on your annual UK income, which will be between 20% and 45%.

Please note that Income tax rates vary in Scotland.

Capital Gains Tax

You will be taxed on any increase in the value of the property when you come to sell it (less any allowable expenses, such as purchase and disposal fees and Stamp Duty Land Tax). If you hold the property personally, you will be liable for Capital Gains Tax when you dispose of a residential property (if it is held in a limited company, you would instead pay Corporation Tax on annual profits). If you are taxed at the basic rate you would pay 18%. Higher rate taxpayers pay 28%.

Any capital gains made from a residential sale occurring since 6 April 2020 has to be reported to HMRC within 30 days of completion and the taxable amount notionally due should be paid on account within the same period. This is a significant difference from the previous procedure, where capital gains tax is paid anywhere between 10 and 22 months after completion.

Private Residence Relief and Lettings Relief

If you let out a property that was once your only or main residence, Private Residence Relief (PRR) and Lettings Relief is available on the sale of the property, however these reliefs were reduced in April 2019.

When you let a home that was once your main residence, Private Residence Relief is available for the amount of time you lived in it, together with a nine month grace period relating to the last nine months of ownership. This is regardless of whether you lived in the property during this period or not, even if it was rented out.

Lettings Relief, was largely withdrawn in April 2020. It now only applies where the owner of the property is in shared accommodation with a tenant. This relief provides up to an additional £40,000 Capital Gains Tax relief, subject to certain rules.

Inheritance Tax

For residential investment properties held personally and shares in property investment companies, these will be subject to Inheritance Tax on your death. This is charged at 40% above the tax-free threshold of £325,000. You would not pay this if the value of your total estate is below the £325,000 threshold or you leave everything above the £325,000 threshold to your spouse, civil partner, a charity or a community amateur sports club.

Investing through a limited company

If you invest through a company, rather than directly, there are several differences in how you will be liable for tax:

Additional relief for finance costs - You can claim full relief for interest or mortgages, compared to a 20% tax credit when held personally.

Corporation Tax - As a limited company you pay Corporation Tax on profits rather than Income Tax . If you wish to take a salary from the company a director can earn up to £8,840 subject to normal tax rules, with no liability for national insurance or tax (assuming no other income). Corporation Tax Relief is also available for pension contributions from limited companies to the benefit of employee directors.

We have prepared a separate guide "*Should you set up a limited company for residential buy-to-let property?*" which looks at this topic in more detail.

Summary

Residential property is a popular investment in the UK, both for individuals and companies. When managed well it can provide capital growth and it can also generate Income.

How an individual structures the purchase of an investment property can significantly impact on how it is assed for tax. It is a complex decision where professional advice should be sought. It will require detailed analysis to assess the most efficient way of holding a property, considering personal circumstances.

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Why Alexander & Co

At Alexander & Co, we have a specialist property tax team that can assist you in weighing up all your options and working out the best solution for you.

Our property experts have a wealth of knowledge in this field and have worked with companies, entrepreneurs, individuals, trusts and organisations in the commercial and residential sectors for many years. If you are looking for a chartered accountant and tax advisor with the right property know-how, then Alexander & Co are here to help.

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