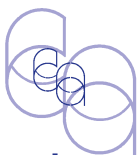


2016/17  
GUIDE TO...

# Tax and Property



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# YOUR GUIDE TO...

# Tax and Property

**Property ownership has a number of different tax implications, which is why it is essential to put in place adequate tax planning measures now. This guide sets out some of the key aspects of tax and property.**

## Your home and capital gains tax

Your main residence is exempt from capital gains tax (CGT) when you sell it, provided it has been your only or main residence during the whole period of ownership (or since 31 March 1982). Various rules allow periods of temporary absence to be disregarded.

Where a main residence has been let at some time during the period of ownership, there may be a chargeable gain for this period. However, this may be reduced by up to £40,000 (£80,000 for a couple) by lettings relief.

## Owning more than one property

If you have more than one home, you may elect which is to be your main residence (i.e. exempt for CGT purposes) within two years of acquiring the additional residence. As long as a home has at some time been your main residence for CGT, the last 18 months of ownership are added to your exempt period.

It may be beneficial for a married couple to own the non-exempt residence jointly as each will be entitled to the annual capital gains tax exemption.

## Partial business use

If you use part of your home exclusively for business, interest and running costs on the relevant portion of the borrowing will be allowed as a business expense. In these circumstances, a similar proportion of the CGT exemption will be lost.

However, if you use some rooms exclusively for business for most of the time but also use them for non-business purposes for some of the time, the full exemption will normally be preserved.

## Inheritance tax (IHT) considerations

An additional nil-rate band for IHT is to be introduced where a residence is passed on death to direct descendants such as a child or a grandchild. This will initially be £100,000 in 2017/18, rising to £125,000 in 2018/19, £150,000 in 2019/20, and £175,000 in 2020/21. This relief is subject to certain restrictions – please contact us for further advice in this area.

# Property Investment

## Tax aspects of property investment

Income arising from land and buildings is generally treated as investment income unless it is from furnished holiday lettings or from property development, or the provision of services such as hotels and guest houses, in which case it would be classified as trading income.

From an accounting and tax point of view, all rental income (except furnished holiday lettings) is treated together as coming from one 'property' business, regardless of the terms of letting. Profits and losses are calculated using the same general accounting rules as for trading, including accruals to cover the timing difference of rent or expenses in advance or arrears.

## Jointly owned property

Spouses or civil partners normally own joint property as 'joint tenants'. This means that each has equal rights over the property and when one dies it goes automatically to the other. However, it is possible to change the ownership to 'tenants in common' where the share of each is separate and may be disposed of during lifetime or on death as the spouse or partner wishes.

Profits or losses (and, indeed, capital gains) arising from jointly owned property will normally be divided equally amongst the owners, for tax purposes. But where actual ownership and income are in different proportions the tax treatment can be varied to match.

Both partners or spouses must ask their respective tax offices for their share of profits and losses to match the share each holds in the property. Form 17 is available to be used for this purpose.

## Furnished Holiday Lettings (FHLs)

Property businesses which comply with the relevant conditions can qualify for some very important tax concessions. FHLs are treated for tax purposes as if they were trades. Unlike other domestic lettings, the expenses can include capital allowances on furniture and kitchen equipment. The income counts as earnings for pension contribution purposes, and there are other advantages relating to the disposal of such properties.

# Allowances and Reliefs

## Allowable expenses

Landlords will no longer be able to deduct all of their finance costs, such as mortgage interest and fees, from their property income. They will instead receive a basic rate reduction from their income tax liability for their finance costs. To give landlords time to adjust, the Government will introduce this change gradually from April 2017, over four years as follows:

- in 2017/18, the deduction from property income will be restricted to 75% of finance costs, with the remaining 25% being available as a basic rate tax reduction
- in 2018/19, 50% finance costs deduction and 50% given as a basic rate tax reduction
- in 2019/20, 25% finance costs deduction and 75% given as a basic rate tax reduction.

From 2020/21, all financing costs incurred by a landlord will be given as a basic rate tax reduction.

Other expenses allowable in calculating income include rents, rates, insurance, repairs, management and professional fees.

## Allowances for equipment

From April 2016 landlords of residential dwelling houses can deduct the costs they actually incur on replacing furnishings, appliances and kitchenware in the property, but excluding fixtures.

The relief given will be for the cost of a like-for-like, or nearest modern equivalent, replacement asset, plus any costs incurred in disposing of, or less any proceeds received for, the asset being replaced. The deduction is not available for furnished holiday lettings or where rent-a-room relief is claimed.

In general it is not possible to claim capital allowances for fixtures and fittings in a dwelling house but for commercial properties, capital allowances may be claimed in respect of many fixtures and fittings.

## Rent-a-room relief

Under the 'rent-a-room' scheme, income from letting furnished rooms in your main residence will be exempt from tax if the gross annual rent does not exceed £7,500 in 2016/17 (£3,750 if you share the income). If you are letting to lodgers who live as part of the family, there will be no loss of capital gains exemption. Otherwise, there may be some restriction.

# Other Considerations

## Business rates

Where there is mixed use of a property, business rates may be payable as well as council tax, unless the business use does not materially detract from the private use. Non-domestic properties, such as commercial premises and boarding houses, are in any event subject to business rates. Provision of bed & breakfast in your own house is not caught if there are no more than six guests. Different rules may apply in Scotland and Northern Ireland.

## VAT

VAT on commercial land and buildings is a complicated area which would need careful consideration.

## Stamp Duty Land Tax (SDLT)

For **non-residential property** there is no charge to SDLT if the purchase price is £150,000 or less. With effect from 17 March 2016, non-residential property which is not exempt is charged at a rate of 0%, 2% or 5% on the consideration falling within each band (rather than the whole transactional value).

For **residential property**, there are various bands and rates from 2% up to 12%. There is no SDLT charge if the purchase price is £125,000 or less, and thereafter SDLT is payable at each rate on the portion of the purchase price which falls within each band. Additional SDLT of 3% may apply to the purchase of additional residential properties from 1 April 2016.

In Scotland, where the Land and Buildings Transaction Tax has replaced Stamp Duty, different rules, rates and thresholds apply for both non-residential and residential properties, although a similar surcharge has been introduced on the purchase of second properties from 1 April 2016.

## Disposal

If the purchase and sale of properties amounts to a trade then profits will be taxed as income. In all other cases, disposals will be subject to the rules for the calculation of capital gains. Furnished holiday lettings may also qualify for rollover relief or gift relief. In some circumstances they may also be eligible for IHT business property relief, in which case they would pass free of any IHT charge.

**While some of the principles of property taxation may seem relatively straightforward, seeking professional help is essential. Contact us for further advice.**

# Our Services

In addition to the full range of taxation, accounting and auditing services, Cohen Arnold is able to offer you assistance and guidance in all the following areas:

- Financial Due Diligence
- Tax planning and mitigation
- HM Revenue and Customs investigations
- Information Technology and computer consultancy
- Finance raising for both corporate and property acquisitions
- Company formation and administration in all jurisdictions
- Comprehensive charity services
- Business start-up advice
- PAYE and VAT administration services

*This guide is for general information only. No responsibility is taken for any action taken or refrained from in consequence of its contents. Always seek professional advice before acting.*



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