



# Villabela Properties

Lettings and Management

a private landlord service

## **Your Basic Guide to UK Tax in Property**

Whether you own and let one property or twenty, buy-to-let income is subject to many different forms of tax.

There are four different taxes that your buy to let properties will incur, this short guide will explain each of them to you.

### **Stamp Duty**

This is the tax you will pay on the value of the property when you first buy it. Stamp duty is a tiered based tax based on the value of the property.

Stamp duty rates are the same if you are buying a property to occupy or buying to let.

## **Income Tax**

This is the tax you will pay on the income received from the rent your tenant pays. Any rent received from buy-to-let properties needs to be declared as income on your self-assessment tax return, failure to do so could result in a fine.

Income tax is calculated on your current tax banding, 20% for basic rate tax or 40% for higher rate; however you can reduce the amount of tax you pay by offsetting certain allowable expenses, such as:

- Rents, rates, insurance and ground rents
- Property repairs and maintenance
- Mortgage Interest
- Other Finance Charges
- Legal Fees
- Property Management Fees
- Letting Agent Fees

If you're unsure whether an expense is tax deductible or not you should always speak to your accountant, whose fees are also tax deductible.

## **Capital Gains Tax**

This is the tax you will pay if you sell your buy-to-let property for more than you originally paid for it, that is, if you make a profit. You will only pay capital gains tax on the amount of profit you make on the property, not on the full sale price.

Capital gains tax is only payable if you make a profit on the sale of your property, not if you make a loss.

There is an annual tax free allowance for capital gains tax. This is the amount of profit you can make before capital gains tax is charged. For the current tax period of 2015/2016 this is £11,100.

As an example, let's say you buy a property for £200,000 and sell it for £250,000, you will have made a profit of £50,000 but you will not pay capital gains tax on the full £50,000, you will only pay on £38,900, i.e £50,000 less the £11,100 tax free allowance.

If you make a loss on a buy-to-let property sold in a previous year, you may be also able to use this loss to reduce your capital gains bill for the current year.

Also, like income tax you are able to deduct certain expenses you've incurred in buying, selling or improving your property, these include:

- Solicitor's Fees
- Estate Agent's Fees
- Advertising Costs
- Property Improvements that increase the value of the property( this does not include general maintenance costs)
- Stamp Duty

## **Inheritance Tax**

When you die your buy-to-let property or properties will form part of your estate, this means that whoever inherits your property may be subject to inheritance tax.

This can be as much as 40% if the total estate exceeds £325,000 for an individual or £650,000 for married couples.

There are a number of ways that you can reduce the inheritance tax liability by making gifts of the property to your relatives or by putting parts of your estate in trust, however this is much more complex with a property than it is with cash, shares or funds as these can be passed over in small chunks, which is obviously not viable with property.

You should speak to an independent financial adviser, solicitor or accountant for further information and for help reducing your inheritance tax bill.

**Please be aware that Landlords must operate within the law and comply with numerous Housing Acts as failure to comply with them can lead to jail, severe fines and prevent them from ever letting out properties again. This is a courtesy guideline only, of which must be read in conjunction to the relevant rapid and regular changes to Legislations and Housing ACTs of which the Landlord must comply with. It is vital the lettings status of a property is processed and assigned timely and in the correct manner.**

**For further information, advice or a chat please do not hesitate to contact us.**