LANDLORD NEWSLETTER

OCL Accountancy
141 Englishcombe Lane Bath BA2 2EL
Telephone: 01225 445507
Email: info@oclaccountancy.com

We hope you enjoy reading this newsletter and find it useful. Please contact us if you would like to discuss any matters further.

MARCH 2022

Welcome to our monthly newsletter for property landlords. We hope you find this informative and please contact us to discuss any matters further.

Changes to Capital Gains Tax (CGT)

Last year, the Office of Tax Simplification made several suggestions to the government for ways to simplify Capital Gains Tax reporting.

The government recently announced that they have accepted 5 of the suggestions. The two most important updates are:

1. the 'no gain no loss' window on separation and divorce will be extended, and:
2. rollover relief will be extended to cover reinvestment in the form of enhancing land already owned.

The other accepted suggestions are administrative tasks such as updating online tax guidance and creating a central online hub for CGT reporting.

Rollover Relief allows you to delay paying Capital Gains Tax if you sell assets and use all or part of the profits to purchase new assets.

This update means that if you reinvest proceeds from selling an asset into enhancing land that you already own, this will fall within the scope of Rollover Relief and you can delay paying CGT.

It's important to note that discussions are still ongoing, so it's unlikely that these changes will be introduced before the new tax year.

Interest relief on remortgaged buy-to-lets

It's well known in the property world that buy-to-let mortgages offer significant tax advantages. But do these advantages remain if you remortgage?

In the past, HMRC allowed you to claim interest charged on a new loan as a deduction against your rental income.

However, HMRC introduced guidance in the 2017/2018 tax year advising that only loans used exclusively for the property business can be deducted. It also outlined rules for business owners to withdraw profits from the business, specifically the amount that can be withdrawn.

The guidance suggests that an investor who put capital into the business can later withdraw that amount for any purpose. However, if the investor withdraws more than their initial capital, the interest on the exceeding amount is not deductible.

In regards to remortgaging, if you increase the loan on your buy-to-let property, the interest on the new loan can be treated as a revenue expense up to the initial value of the property when it became a letting business, and only if it is used exclusively for your business.

Simplifying the VAT rules for land

HMRC are looking into options to simplify the VAT rules for land and property.

Currently, sales of land are VAT exempt unless the property owner voluntarily chooses to tax the land. However, there are several complex exemptions and partial exemptions to that rule.

If an exception applies to a property, the landowner then has to consider a number of conditions to determine if it is excluded from the exception. This can be expensive and time-consuming, but also leave the rules up for interpretation.

For instance, some supplies are automatically standard rated such as car parks, storage facilities and hotel accommodation. However, properties often don't fit 100% into one category or another - they overlap to some extent, sharing characteristics with other categories.

Therefore, if HMRC believes that the property is deemed one of these exceptions, then the property will be standard rated for VAT.

The need to simplify these rules and make clearer processes for determining tax liability has been ongoing for several years. HMRC has accepted suggestions from the Office of Tax Simplification as well as UK businesses and accountants.

Although it's unlikely that changes will be made in the near future, HMRC publishing these findings is a good sign that changes are coming. We'll keep you posted with any updates.