

LANDLORDS – HOW TO PAY LESS TAX ON YOUR BUY-TO-LET PROPERTIES

Could your buy-to-let property be more tax-efficient? Are you claiming back all of the allowable expenses? Here is our guide of what is allowable and what isn't which will help you to keep your dreaded tax bill to a minimum.

Capital Expenses - Let's start with the expenses you can't claim for. These fall mainly in the category of Capital Expenses. For example, the purchase price of the property, furnishing the property, conveyancing fees and estate agent fees can't be claimed for. You also can't claim for improvements against rents received for permanent works such as extensions that have enhanced the value of the property at the date of sale, although these can be claimed for capital gains tax purposes.

So, what exactly can you claim for?

Fees if you are using a Letting agent - If you use an agent to let and manage the property, you will typically pay 10-15% in fees. All of this can be claimed back against your tax. On a property with rent of £1000 per month, this is £150 per month or £1800 per annum you can claim as an expense.

Your costs to find tenants if you are not using a letting agent - Any costs associated with finding a tenant. For example, advertising, legal documents, credit checks, obtaining references, can all be claimed against tax.

Interest if you have a mortgage on the property - Every penny of interest you pay on your mortgage can be used to offset your tax bill. It is wise to keep your property mortgaged for this very reason otherwise you will miss out on this big tax break. For example, if the price of the buy-to-let property is £200,000 and you take on a repayment mortgage for this amount over 25 years, your total payments will be £1,055 repayment plus £667 interest. The £667 can be offset against your tax. For an interest only mortgage, the whole amount can be offset. Many landlords take this option with a longer term view that the housing market will rise.

Mortgage fees - Although the costs associated with buying the property weren't allowable, any arrangement fees or mortgage broker fees are tax deductible in that year.



General upkeep, repairs and maintenance - As long as it doesn't fall under the renovations, extensions restriction, you can claim any reasonable expense relating to the upkeep of the property or furniture within it. For example, repairing the microwave, fridge, oven, painting and decorating, cleaning carpets and the services of a gardener are all claimable. Note, you can clean the carpet and claim but if you replaced the carpet, this will come under improvements. Assuming the property is let out furnished, you can claim a 'wear and tear' allowance of 10% of rent per annum. This can be claimed without HMRC requiring any proof.*Although from April 2016 this will change and only costs incurred will be allowed.

Leasehold-related costs - Service charges, ground rent and similar charges paid to a freeholder are allowable expenses.

Bills paid on behalf of the tenant - As a landlord, you can opt to pay for a tenant's council tax, water, electricity etc. - all of which can be claimed back against tax. This is also relevant when the property is empty.

Insurance - Landlords require landlord insurance which covers liability, buildings, loss of rent amongst other things. This is an allowable expense.

Other direct costs - Any phone calls, travel to your property, postage, stationery that are related to renting your property are allowable. In fact, if you use an accountant to do your tax return, their fees are also tax deductible! At McPhersons, our best advice is to keep all your receipts so we can prove all the expenses are genuine.

Need more help?

This feature aims to give some informal hints and McPhersons are offering businesses free advice so get in touch now to arrange your free meeting 01424 730000.

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