A SHORT TAX GUIDE TO PROPERTY BUSINESSES
(for UK residents dealing with UK properties – rates valid for 2015-16)

Property businesses are very complex for tax purposes and little differences in the way the business is operated may make a complete difference to the way it is treated for tax purposes. This short guide is intended as a way to raise awareness of the issues to consider, and is in no way a comprehensive guide – you should always seek advice specific to your circumstances.

1. **Types of property Businesses**

   a. **Property Investment (Including Letting)**
   Properties are held as long term investment

   b. **Property Trading (Including Development)**
   Properties or land are purchased with the aim of a short term sale, with or without developments/improvements to the property

   c. **Property Management**
   A business providing management services to property owners. This is a traditional service business and therefore not covered in this guide.

2. **Property Investment Business**

   The business consists of purchasing properties and holding them for the long term.

   a. **Profits**
   Rental Income less Allowable expenditure. The profits must be calculated for the tax year (6^{th} April – 5^{th} April)

   b. **Stamp Duty**
   Stamp Duty will apply on the purchase cost – Stamp duty is not allowable expenditure when calculating profits for income tax, but will be deductible when calculating a capital gain

   c. **Income Tax**
   For the sole trader/partnership Income Tax will be charged on profits at 20%/40%/45% depending on your level of income (first £10,600tax free)

   d. **National Insurance**
   Rental income is **not** subject to National Insurance – Note that running a property investment business is not self-employment which does attract national insurance.

   e. **Corporation Tax**
   If the Property Investment Business is run through a limited company, the profits will be taxed at 20% (up to £300,000). Amounts taken out of the company as dividends will not attract additional tax as long as individual's total income does not exceed £42,385

f. **VAT**
Lettings of residential property is an exempt supply meaning that the business making the sale is unable to recover any of the VAT on its expenses, and does not have to charge it on its sales**.**

g. **Capital Gains Tax**
Properties sold will be subject to Capital Gains Tax on the profits at 18%/28% depending on the individual's other income, after deduction of the CGT annual tax free allowance of £11,100. The profits will be calculated as purchase costs less capital costs incurred (generally costs that have not been allowable under income tax, such as stamp duty, building works etc…). If the business is run through a company, the capital gains will be taxed at the company's corporation tax rate (there is no tax free allowance)

3. **Property Trading**

The business consists in purchasing properties as trading stock, and selling them on, with or without development/ improvements.

a. **Profits**
Sale price of properties less cost of purchase and any other improvements. The period of accounts can be set by the business. Note you can only deduct purchase and related costs once the property has been sold

b. **Stamp Duty**
Stamp Duty will apply – Stamp duty is allowable when calculating profits

c. **Income Tax**
For the sole trader/partnership Income Tax will be charged on profits at 20%/40%/45% depending on your level of income (first £10,600 tax free)

d. **National Insurance**
Property trading is self-employment and attracts National insurance at 9% up to £42,385, 2% thereafter (first £8,060 NI free). Self-employment is also subject to class 2 NI at £2.80 per week if profits are above £5,965

e. **Corporation Tax**
If the Property Investment Business is run through a limited company, the profits will be taxed at 20% (up to £300,000). Amounts taken out of the company as dividends will not attract additional tax as long as individual's total income does not exceed £42,385

f. **VAT**
Sales of residential property are generally an exempt supply meaning that the business making the sale is unable to recover any of the VAT on its expenses.

Sales of newly constructed residential property are zero-rated for VAT purposes. This means that the developer can recover all of the VAT on all their costs without having to charge VAT on the sale of the property. (In theory, VAT is charged, but at a rate of zero.)

g. Capital Gains Tax
Does not apply as properties are sold as trading stock

4. Property Investment Business – Allowable expenditure

The rules are similar to those for other types of business:

Interest and other finance costs
Property maintenance and repair costs***
Wear & Tear Allowance (Furnished Lettings only)
Heating and Lighting costs
Insurance costs
Letting agents fees
Advertising for tenants
Accountancy fees
Legal & Professional fees
Cleaners, gardeners where relevant
Ground rent, service charge
Bad debt
Landlord's administrative expenditure

***to note:

1. Any expenditure incurred to make the property fit for use when the property is first rented is **not** allowable
2. Any subsequent expenditure which merely restores the property to its previous condition will be allowable, repairs are allowable, but not renewals (for example of white goods, or carpets)

5. Property Trading – Allowable expenditure

General expenditure allowable:
Interest and other finance costs
Accountancy fees
Legal & Professional fees
Cleaners, gardeners where relevant
Administrative expenditure

Expenditure allowed as part of the cost of the trading stock (when property is sold)
Property Purchase
Stamp Duty
Legal Fees
Survey fees
Professional fees (such as planning permission)
Building works
Estate Agents fees