New members' guide on the taxation of landlords

Technical

01 April 2015

The latest in our series of technical guides for members – Taxation of Landlords – is now available on our website. Written by Rebecca Cave and reviewed by CIOT volunteers and technical staff, the guide provides an overview of the tax issues connected with the letting of residential property and should assist members in dealing with what can be a challenging area. Topics covered include: the taxes which may apply on the purchase of the property; how income from the property is calculated and taxed; and the capital gains tax liability which may arise when the property is sold. Examples intended to illustrate the rules are provided throughout the guide, as are links to further information.

Members may be particularly interested in the section on the renewal of some items, such as fridges, in partly furnished let properties. The rules in this area changed from 2013/14 and members may be aware that the CIOT entered into correspondence with HMRC in the hope of clarifying matters (see ‘Update: renewals basis for let property’ on page 48). There is a view that tax relief can be claimed under CTA 2009 s 68 or ITTOIA 2005 s 68 for replacing the cost of items used in partly furnished let properties. However, HMRC’s position, as confirmed in a letter to the CIOT, is that s 68 can apply only to the replacement or alteration of small assets in limited circumstances.

Also in the guide, we consider the class 2 NICs position of landlords in light of recent reports of HMRC sending out demands to landlords who have several let properties. At present, class 2 NICs are due when there is a self-employed business and it can be difficult to draw the line between a passive investment and an active business (although, as we point out in the guide, the case of *Rashid v Garcia* may help). This problem will be resolved on 6 April 2015 when the basis on which class 2 NICs are assessed will be aligned with class 4 NICs; that is, charged in respect of trading profits.

All of our technical guides for members can be accessed from the CIOT website and the ATT website. Note that you will need to be logged on to the website as a member in order to access the guide. If you have any suggestions for subjects for future guides, please let me know.