Are you making these property tax mistakes?

By specialist property accountant Stephen Fay ACA

Successful property investors can easily lose a large chunk of their hard-earned profits by not arranging their affairs tax-efficiently. This article looks at some of the most common property tax mistakes – and how to avoid them.

No tax-planning to avoid Higher Rate income tax

The purpose of property investing is to make profits – of course! But most investors generate tax losses in the early growth phase of portfolio building. Once these losses are utilised, taxable profits could result in an unnecessarily high tax bill - unless tax-planning measures are taken.

Adjusting the ownership structure, or using a management or lease company, are just a couple of options to be considered.

Good tax-planning requires an understanding of future plans & profits, so that cost-effective solutions can be found. Using the free 'Cashflow Tracker' tool on our website can help investors to map out their business to develop short, medium and long-term plans.

Unnecessary use of a company or partnership

These structures can be useful to investors – in the right circumstances. However, setting up such structures unnecessarily – and without adequate understanding of when each are useful – is a common mistake.

Unnecessarily high professional fees, lower mortgage LTVs, extra admin and red tape, more scope for HMRC Enquiries (particularly where property is transferred into a company), and in some cases, actually higher tax bills, can result.

Ensure that that your accountant has a clear understanding of your property strategy – so that a suitable tax strategy can be put in place.

Unrealistic tax-saving expectations

Paying tax is part of life for profitable businesses – from those on minimum wage to the top earners. While there are lots of tax-planning steps that can be taken to minimise any tax due, remember that the UK is not a tax haven – so treat receiving a tax bill as a positive sign of success!

Good profits enable investors to ride out voids, peaks in maintenance spending, and higher interest rates. While the 'private equity' model of running high debts against appreciating asset values is not the reckless gamble that some say (there are exceptions!), when investors come unstuck it is usually because of a lack of actual profits and cash.

Keep tax in proportion – get the big decisions right (ownership structure, using an experienced adviser, identifying all relevant expenses, planning property sales carefully, keeping significant receipts etc).

Selling property without planning the sale carefully

Capital gains tax is now charged at 28% for Higher Rate income taxpayers – so there is all the more need to carefully plan property sales.

Selling off poor-yielding properties with equity in them is often a good way to release 'lazy equity' for reinvestment into better property, or to pay down debt.

But tax considerations need to be factored into the selling strategy, so that the maximum amount of funds are released form a sale after paying the lender and the taxman.

For example, for business owners, could investing in your company & claiming EIS relief to defer any CGT be an option? Talk to your accountant – there may be options you may not be aware of.

Bad record-keeping and financial management

We sometimes come across investors who unfortunately don't have the required financial management and systems in place to run a property portfolio in a professional manner.

Keeping good records may be boring, but, successful investors give their property business the attention and effort that it serves – setting up simple systems and processes ensures that investors can claim, and support, all the expenses they can, and that the tax treatment of some items (like refurb costs) can be proven. Managing cashflow well, paying suppliers and tradesmen on time, and generally running a tight ship all help to keep down tax bills.

Paying cash to tradesmen (no receipt), mileage records, rent payments in cash, business expenses incurred personally (not through the business bank account), records to claims against capital gains tax bills etc. – these are all areas that HMRC regard as 'rich pickings' as many investors have poor records.

Summary

Good tax-planning is often about doing the simple things well. Getting the property ownership structure right, keeping good records and having good systems, planning ahead, making every possible claim, using every allowance, and including all possible expenses – these simple steps are a large part of good tax-planning – so that more expensive options are only taken when absolutely required.

Visit our website at www.fyldetaxaccountants.co.uk, for **FREE** tools, templates and reports to help you manage all aspects of the financial performance of your property business .