

# THE IMPORTANCE OF BEING EARLY... WITH YOUR TAX RETURN!

Autumn is upon us, and for many investors this means turning their attention to their annual property accounts and tax returns. It's a job that no-one enjoys dealing with, and human nature to leave to the last minute – but there are huge benefits to completing this property task earlier rather than later.

Specialist property accountant Stephen Fay FCA looks at why procrastinating can cause problems ...

## AREN'T TAX RETURNS DUE BY JANUARY – PLENTY OF TIME?

The vast majority of landlords operate their property business as individuals, and so are for tax purposes known as 'private landlords'. This means that by default their accounts and tax year-end is 5 April, and their personal tax return is due for filing with HMRC by 31 January each year. This gives landlords almost 10 months to file their tax return.

## SO WHAT'S THE POINT OF GETTING MY TAX RETURN IN EARLY?

There are lots of benefits of completing your annual accounts and tax returns early, including the following:

### 1. Save tax in the CURRENT tax year

Property is a game of highs and lows: rents fluctuate year on year as new properties come on stream and existing properties become vacant or are re-tenanted; repairs tend to occur as infrequent but large lumps, followed by 'tick along' years with minimal costs, not to mention remortgage fees and changes in mortgage rates, etc ... all serve to make property profits change from one tax year to another. Many landlords have brought forward rental losses, or capital allowances to be used, or might have non-property income stop or start in a new tax year.

By completing your tax return early, you can see how the current year looks, but also plan for the following year using the latest information available.

Those that leave their tax return to the last minute (January), often give themselves bigger tax problems in the future, because tax-planning needs to be done in advance (hence the term 'planning'!). For example, for those that may need a management company, if this is only set up in January, up to 10 months of the next tax year has already passed – meaning 10/12ths of the benefit has been lost.

Similarly, if a change in ownership structure is required, for married couples this needs to be completed mid-year as HMRC must be notified within 60 days for a change, for it to take effect for tax purposes – and HMRC does check!

### 2. Plan for tax liabilities in advance

It's quite common for investors to underestimate their tax exposure; even for the most profitable landlords an unexpected tax bill can cause financial problems.

By completing the year-end accounts and tax return early, the maximum time is available to save and plan for on-time payment.

### 3. Ask HMRC to 'code out' tax bills up to £3,000 = an interest-free loan

For investors with a second salary or pension income, tax bills of £3,000 or less can be 'coded out' and collected via their tax code. This means that the tax bill isn't due for payment as a lump sum by 31 January, but instead is collected in 1/12th instalments over the following tax year – effectively an interest-free loan from HMRC. BUT: tax returns have to be filed by 30 December to qualify for this benefit (with the Christmas period, this effectively means by 24 December!).

### 4. Lenders want up to date information these days

May lenders will now require the current tax year returns (or SA302 forms) if the latest information is too old (in the lender's view). So, once you've had your offer accepted for your latest property, make sure your accounts are up to date, and bear in mind that most

accountants have 2-3 weeks of work on hand at any one time, so let him / her know you will be sending your accounts information in.

### 5. Reduce your 31 July payment on account

For investors with annual tax bills of £1,000 or more, payments on account are due by 31 January and 31 July each year, being 50% of the prior year tax bill. By filing a tax return before 31 July, the second payment on account (31 July) can be reduced or avoided, since the actual figures will be known at that point and so the 'guesstimate' payment on account becomes known.

### 6. Set up a new company

For investors with total incomes in the Higher Rate (40%) tax bracket, a property company can be used to reduce the tax payable to 20%. BUT: this must be set up during the tax year to get the full benefit (how could a company that doesn't exist receive income?!). This is very basic tax-planning that investors who procrastinate can – and do – miss out on.

### 7. Get HMRC 'clearance' earlier for your tax return

HMRC have 12 months from the day you submit a tax return to launch an 'Enquiry' (previously known as an investigation) into the return. So, by submitting your return early, the point in time where HMRC are able to look into the tax return is brought forward – providing peace of mind to the investor.



Most accountants are busy in January – but as most investors know, while it's nice to be busy, it's not to be **TOO** busy! We accountants have wives, children, family ... who do like to see us during January! One sure-fire way to become an irritant to your accountant, who should be a valuable and so respected member of your 'property team', is to turn up in late January expecting your tax return to be filed on time ... we're only human after all! On a more serious note, people work better, and come up with better tax-planning ideas and suggestions, when not under pressure...

## IN SUMMARY ...

There are a whole host of reasons to complete your annual property business accounts early – or rather, not late! In my experience of working with 700+ clients, around half will aim to provide their accounts information within 3-4 months of year-end, and the remainder by December. Only around 5% leave it until January – partly due to 'gentle persuasion' from their accountant, for the reasons above!

Visit our website ([www.fyldetaxaccountants.co.uk](http://www.fyldetaxaccountants.co.uk)) for useful tools, tax tips and free reports

## Is your accountant a property specialist?



Stephen Fay ACA

- ✓ Specialist property team led by Stephen Fay ACA
- ✓ Tax-planning services for property investors
- ✓ 500+ property clients - property is all we do!



 **Fylde tax accountants**  
...the property specialists

Tel: **01253 398 082**  
Web: **[www.fyldetaxaccountants.co.uk](http://www.fyldetaxaccountants.co.uk)**

