

February Property Newsletter

Welcome to our monthly newsletter for property landlords. We hope you find this informative. Please [contact us](#) to discuss any matters further.

More time to prepare for MTD for Income Tax Self-Assessment

Making Tax Digital (MTD) for Income Tax Self-Assessment (ITSA) was due to be phased in from April 2024. However, on 19 December 2022, the government announced a delay. In addition, the previously announced £10,000 threshold for self-employment and property income has been raised, as detailed below.

Under MTD for ITSA, businesses, self-employed individuals, and landlords will keep digital records, and send a quarterly summary of their business income and expenses to HMRC using MTD-compatible software. This will replace the need for a Self-Assessment tax return.

From April 2026 self-employed individuals and landlords with an income of more than £50,000 will be mandated to comply with MTD requirements.

From April 2027 self-employed individuals and landlords with an income of between £30,000 and £50,000 will be mandated to comply.

The government has also announced a review into the needs of smaller businesses, particularly those under the £30,000 income threshold. The review will consider how MTD for ITSA can be shaped to meet the needs of these smaller businesses and the best way for them to fulfil their Income Tax obligations.

Buy to let crisis – an overview

2022 was a turbulent year for our finances, particularly when it came to property. Those in the industry are hoping that 2023 will see less volatility, and we are already seeing signs of recovery such as lower mortgage rates and a predicted fall in inflation.

Damage has been done however, and one of the biggest casualties has been the buy-to-let market, with commentators describing the situation as at crisis point.



What is happening and why?

The number of buy to let properties is getting smaller. According to HMRC data, the number of UK rental homes available dropped by 116,000 in 2022. It is expected that more landlords will look to sell properties in 2023, because, generally speaking, being a landlord has become more difficult and less profitable.

In recent years we have seen tax measures such as the finance cost restriction, the removal of wear and tear allowance and reforms to Principal Private Residence relief, all of which are likely to increase tax liabilities for landlords. Further cuts to CGT relief,

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announced in the 2022 Autumn budget, are likely to accelerate any property disposals.

Additional residential properties also incur a 3% stamp duty surcharge, which may put off potential new landlords from entering the market.

In addition, sweeping reforms to housing laws are set to be introduced in 2023, including the abolition of 'no-fault' evictions. Whilst the reforms would be good for tenants, they could make owning a buy to let property more onerous.

What are the implications of the crisis?

For renters at the middle and top end of the market, quality, affordable housing is scarce. This has led to increased competition, with bidding wars taking place and would-be tenants submitting CVs to letting agents! Overall, this means that rents are higher, which is good news for landlords who have remained in the market.

For renters at the bottom end of the market, the risk of eviction is higher, as more and more landlords are looking to sell their properties.

For homeowners, we have already seen how increased mortgage rates have reduced borrowers' buying power, in turn reducing house prices. This problem is expected to be further fueled by the predicted large number of buy to let houses being sold in 2023. There are two sides to every story, however, and landlords who are looking to expand their portfolio will benefit from the lower house prices.

CGT problems

Capital Gains Tax (CGT) in respect of gains on residential property must be reported and paid to HMRC using the Property Disposals Return Service, as well as being reported in the taxpayer's self assessment. For properties sold

since 27 October 2021, the CGT must be paid within 60 days of completion of conveyance.

In some circumstances, the taxpayer may overpay the amount of CGT due, with this only becoming apparent when they come to file their self-assessment for the year of disposal. For instance, a taxpayer may make a gain on residential property during the 2021/22 tax year and pay the CGT due. The taxpayer's self-assessment for 2021/22 may include a capital loss on, say, a share disposal, which could be offset against the gain on the residential property, reducing the amount of CGT due. The taxpayer may then be due a refund from HMRC. It would be reasonable to assume that the overpayment would be refunded via the self-assessment process, but this is not the case.

HMRC's systems are unable to match amounts paid via the Property Disposals Return Service against a taxpayer's self-assessment account. They advise that if a taxpayer is in an overpayment situation such as the one outlined above, then the taxpayer or their agent should call HMRC on 0300 200 3300 and request a manual adjustment to the self-assessment account. This would mean that any overpayment of CGT could be offset against the taxpayer's wider self-assessment tax bill or refunded if necessary.