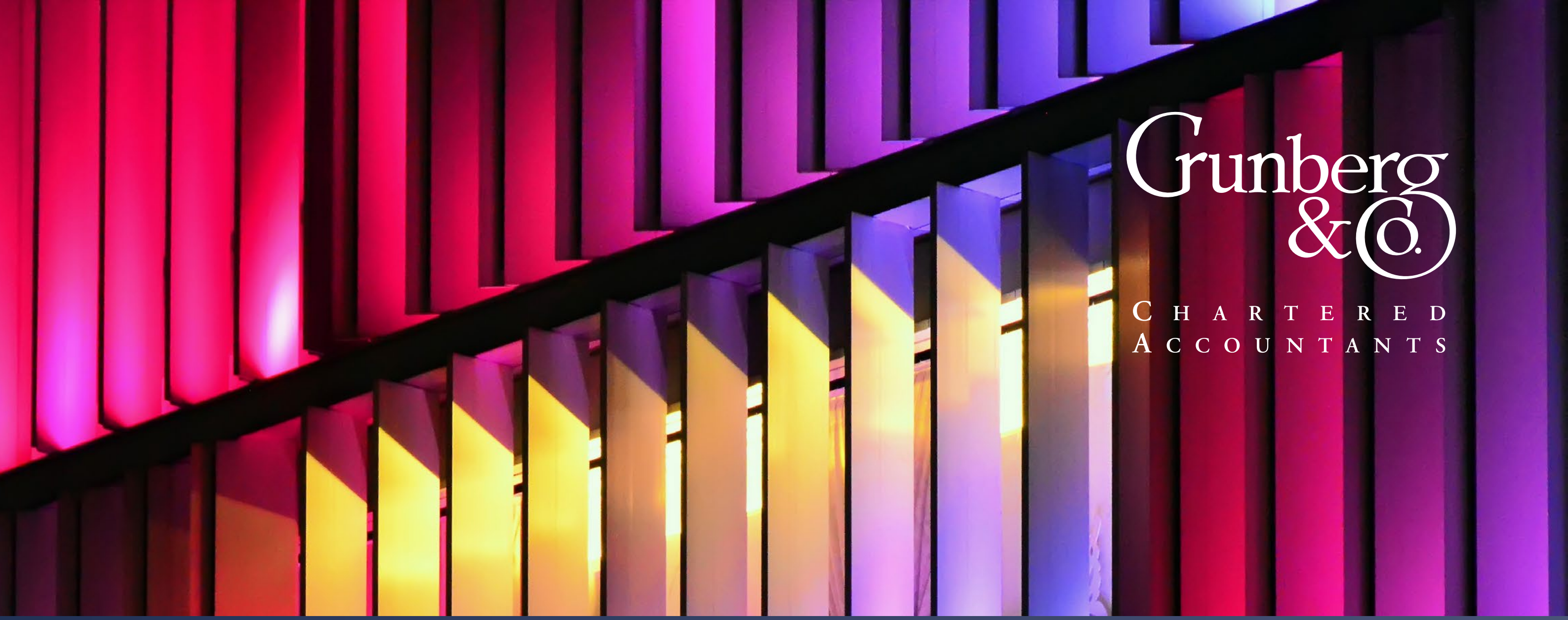


Grunberg & Co.
Chartered Accountants

Property Bulletin

August 2023

Selling rented residential property – Your obligations as a landlord

If you own a rental property and find yourself in a situation where you want or need to sell it, you must fulfil certain legal and financial obligations.

PLUS:

- What impact will an eviction ban have on residential landlords and investors?
- Rising Inheritance Tax liabilities should prompt landlords to reconsider their plans
- HMRC targets homeowners renting out properties

Welcome to the latest Grunberg & Co Property Bulletin, our publication to keep you up-to-date with news from the property sector and the accounting and financial services that our firm can offer you and your clients.

If you would like to find out more about Grunberg & Co's tax and accountancy services for you and your clients, please get in touch with us by calling **+44 (0) 20 8458 0083** or emailing **alexk@grunberg.co.uk**

What impact will an eviction ban have on residential landlords and investors?

The recently published Renters' (Reform) Bill discloses the Government's aim to eliminate "no-fault" evictions in England and bring in tougher rent controls.

The plans mark a significant overhaul of the residential rental sector. Currently known as Section 21 evictions, these allow landlords to regain possession of their properties without providing a specific reason.

Housing Secretary Michael Gove has previously argued that this practice enables unscrupulous landlords to intimidate tenants into silence regarding disrepair issues.

In addition to the abolition of no-fault evictions, the Bill aims to establish a legal right for tenants to request permission to have pets in their homes.

Landlords will be obligated to consider these requests reasonably and refrain from unreasonably denying them.

The proposed measures will affect approximately 11 million tenants and two million landlords in England, according to the Department for Levelling Up, Housing and Communities (DLUHC).

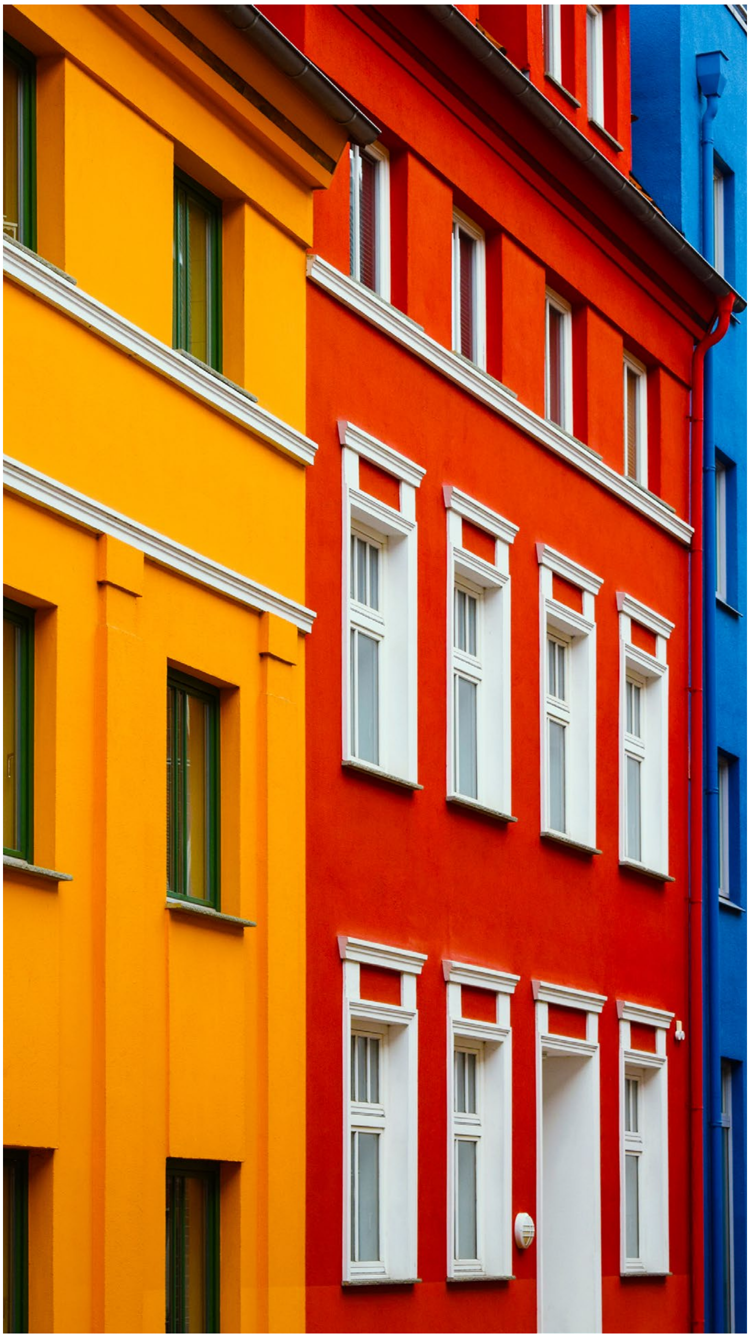
Key measures introduced by the Bill include:

- Elimination of no-fault evictions
- Simplified eviction process for tenants displaying anti-social behaviour or repeatedly missing rent payments
- Restriction of rent increases to once a year, with landlords required to provide two months' notice
- Mandatory consideration by landlords of all pet-related requests, with unreasonable refusals prohibited
- Implementation of minimum housing standards in the private sector, ensuring accommodation is free from health and safety hazards and is well-maintained
- Prohibition of blanket bans on benefit claimants or families with children
- Introduction of an ombudsman overseeing all private landlords, equipped with the authority to enforce landlord apologies and award compensation up to £25,000
- Establishment of an online property portal where landlords must demonstrate compliance with regulatory requirements

These upcoming changes, once enshrined in law, are likely to have a substantial impact on landlords and investors.

It is important that you understand the financial impact that these changes to the law may have on your plan, particularly your ability to set new rents throughout the year.

If you require further information on any matter relating to property management and investment, please **speak to us.**



Selling rented residential property – Your obligations as a landlord

If you own a rental property and find yourself in a situation where you want or need to sell it, you must fulfil certain legal and financial obligations.

Various factors like financial circumstances, property market conditions, or changes in your investment strategy may prompt the decision to sell.

However, selling a rental property is not as straightforward as selling a vacant house. It entails specific considerations that you must address; some of which we have covered below:

Providing Notice to Tenants

Your first obligation is to inform your tenants about the sale. You are required to give them notice before proceeding.

The notice period depends on the type of tenancy agreement in place.

For Assured Shorthold Tenancies (ASTs), which are the most common in the UK, a minimum of two months' notice is typically required. This is often accomplished through a Section 21 notice.

Remember, you cannot evict tenants without proper notice. It is crucial to respect your tenants' rights throughout the process.

Maintenance of the Tenant's Security Deposit

As a landlord, it is your responsibility to protect the tenant's deposit in a government-approved tenancy deposit scheme, even during the sale.

If a new landlord takes over, they will need to protect the deposit as well and inform the tenant about the change.

Existing Tenancy Agreements

The sale of the property does not automatically terminate any existing tenancy agreements.

If tenants are still living in the property at the time of sale, the new owner will assume the existing tenancy agreement and step into the shoes of the previous landlord.

Compliance with regulations

When selling a property, landlords must comply with all regulatory requirements. This includes providing potential buyers with an Energy Performance Certificate (EPC) and ensuring that all gas and electrical equipment has been inspected and certified by a registered engineer. Additionally, the property must meet all health and safety regulations.

Notification to Mortgage Lender

If there is a mortgage on the property, you should inform your lender of your intent to sell. Some mortgages have restrictions on selling, and you may need the lender's consent before proceeding with the sale.

Selling a rental property as a landlord involves significant responsibilities and obligations. Landlords need to have a clear understanding of their rights and duties and consider seeking advice to ensure a smooth process.

Reporting Capital Gains Tax on residential property in the UK

Capital Gains Tax (CGT) is a tax on the profit you make when selling an asset that has increased in value. Residential properties are subject to specific rules regarding CGT and higher rates of taxation than other gains. Landlords in the UK who sell their rental property are also required to report and pay CGT on any profit made from the sale within 60 days of completion.

Here are some key points to consider when reporting CGT on the sale of your rental property:

Record keeping: It's crucial to keep thorough records of the property's purchase, sale, and any relevant capital costs incurred during the ownership period. These records will be essential for accurate reporting and calculating the CGT liability.

Calculation of capital gains: To determine the capital gains, you subtract the property's original purchase price and allowable costs (such as legal fees, certain capital improvements, and acquisition costs) from the selling price. If you are a higher or additional rate taxpayer you will pay CGT at a rate of 28 per cent, while basic rate taxpayers pay this tax at a rate of 20 per cent.

Annual exemption: Each individual has an annual tax-free allowance called the Annual Exemption. For the tax year 2023/2024, this amount is £6,000 (falling to £3,000 in 2024/25). If your capital gains fall below this threshold, you may not need to pay any CGT.

Letting Relief: If you have let out a property that was once your main residence, you might also be entitled to Letting Relief. This relief can further reduce your CGT liability, up to a maximum of £7,500, but you will only be eligible if you lived in your home at the same time as your tenants.

> ***Please note that tax rules and regulations change regularly, and it's advisable to consult with a tax professional to obtain personalised information regarding reporting capital gains tax on residential property sales.***

Ensuring compliance with your CGT obligations is an integral part of selling a rental property as a landlord in the UK.

Be sure to familiarise yourself with the rules and consult appropriate experts to ensure accurate reporting and fulfilment of your tax obligations.

Please contact us today if you require advice on selling your property as a landlord.

Rising Inheritance Tax liabilities should prompt landlords to reconsider their plans

Landlords are being advised to place greater emphasis on strategic planning, as new data released by HM Revenue & Customs (HMRC) highlights a considerable year-on-year increase in Inheritance Tax (IHT) receipts.

The figures suggest that £1.2 billion was collected in the initial two months of the 2023/24 financial year – a 13 per cent rise from the same period the previous year.

This clear surge in IHT revenue underscores the intensifying effects of IHT on landlords and property owners, who have seen an increase in the value of the properties they own in recent years.

The latest figures pinpoint the critical need for tax and estate planning, including the creation of an updated Will.

The Office for Budget Responsibility (OBR) has projected that IHT could generate as much as £7.2 billion this financial year, rising to an estimated £8.4 billion by 2027/28.

Some of those affected by these higher IHT results are likely to be property investors. This is in part due to unchanging nil-rate bands, which have failed to match inflation rates and the escalating value of properties.

With no adjustments, a growing number of estates, particularly those including rental properties, are falling into the IHT bracket.

This highlights the necessity for landlords to grasp the IHT regulations and shape their estate planning strategies accordingly.

The strategic planning of IHT isn't solely about tax reduction but also about maximising the efficient transfer of wealth to your loved ones.

For landlords, this means understanding potential reliefs and exemptions available, including spouse exemptions, the residence nil-rate band, and potentially exempt transfers.

Furthermore, it involves ensuring that your Will is up-to-date and reflects your current wishes, considering the use of trusts to regulate the distribution of your assets, and evaluating lifetime gifts as a means of lessening your estate's value.

As long as IHT remains a key aspect of the tax landscape, landlords must undertake careful planning. To find out how we can help you with your tax and estate planning, **please contact us.**

HMRC targets homeowners renting out properties

HM Revenue & Customs (HMRC) has set its sights on homeowners renting out their properties as part of its ongoing 'nudge' letters campaign.

This initiative is intended to encourage property owners to accurately report all rental income and comply with tax requirements.

Since 2017, HMRC has been utilising 'nudge' letters as a tool to prompt those owing tax to make necessary payments, while simultaneously providing opportunities for penalty reductions.

This tactic has been deployed across various sectors, including foreign bank account holders, individuals with non-domicile status, and even crypto asset traders for possible CGT liabilities.

These letters instruct landlords to review their tax commitments and promptly return a fully filled tax position certificate, typically within a one-month deadline.

Non-compliance could lead to penalties, additional scrutiny, or in serious cases, criminal prosecution.

Online platforms like Airbnb and Vrbo have assisted in these probes by providing data about registered users and their associated financial activities.

The 'nudge' letters give taxpayers a fair chance to address any irregularities and pay tax on unreported income.

Homeowners can subscribe to our tax investigation service to shield themselves against potential costs arising from HMRC investigations. If a 'nudge' letter has been received, it is vital to obtain expert advice.

A similar disclosure project, known as the Let Property Campaign, has been in place for some time for regular residential landlords.

This allows landlords to report any previously undisclosed income with the promise of a smaller fine or penalty.

Property investors should consider disclosing if their tax position isn't accurate or up to date, whether, for a regular property, holiday let or renting out of their main home via platforms such as Airbnb.

In need of professional advice on property income disclosure? Our team is here to help.

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