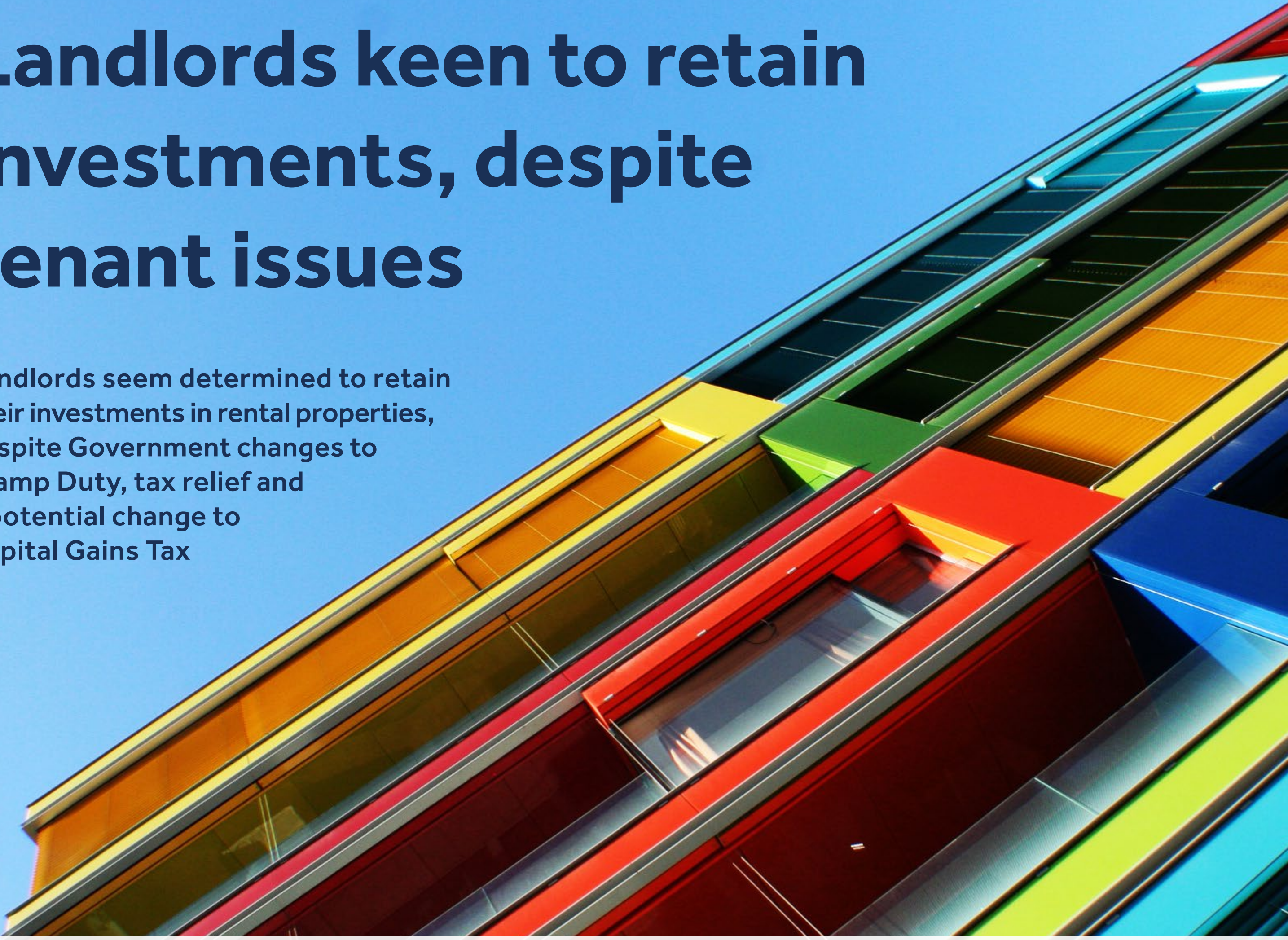
Grunberg & Co.
Chartered Accountants

Property Bulletin

August 2021

Landlords keen to retain investments, despite tenant issues

Landlords seem determined to retain their investments in rental properties, despite Government changes to Stamp Duty, tax relief and a potential change to Capital Gains Tax



PLUS:

- Average house price hits a record high – but market shows signs of cooling
- Landlords need to prepare for the switch to Making Tax Digital
- Non-UK resident companies start to feel the effects of tax changes

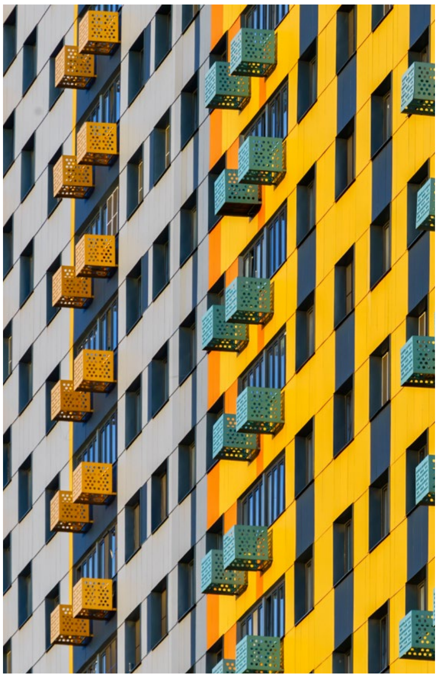
Welcome to the latest Grunberg & Co Property Bulletin, our publication to keep you up-to-date with news from the property sector and the accounting and financial services that our firm can offer you and your clients.

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**

Average house price hits a record high – but market shows signs of cooling

Driven by high demand from potential buyers and a shortage of homes for sale, house prices are a staggering 30 per cent higher than they were at peak of the market back in 2007, according to property advertising website, Zoopla.

The average price paid by home buyers in the UK now stands at a record high of £230,700, up 5.4 per cent in a year, but Zoopla predicts it will fall by the end of the year, as low stock levels remain low and buyer demand dips.



Now that the rush, prompted by the Stamp Duty Holiday, is coming to an end, the market is expected to cool from September 2021.

While the Stamp Duty Holiday and cheap mortgage deals have given the property market a boost, a severe shortage in housing stock has continued pushing up prices.

The number of properties up for sale was around a quarter lower in the first six months of this year than it was at the same point a year ago, Zoopla reported.

The stock shortage problem has been exacerbated by a rise in the number of first-time buyers coming to the market, who, of course, have no property to sell.

Getting more space remains a big draw for many prospective buyers, with the demand for houses twice as high as the 2017-19 average, while the popularity of flats has waned.

Northern Ireland and Wales saw the biggest spike in property prices in the past year, with rises of 8.6 per cent and 8.4 per cent respectively.

At a regional level, house price growth was at its highest in the North West (+7.3 per cent) and Yorkshire & the Humber (+6.8 per cent), while London trailed behind with annual house price growth of +2.3 per cent.

Demand in London is polarised between inner and outer, with demand in outer London running 86 per cent ahead of the 2017-19 average.

"This is explained in part by the available housing stock – with larger volumes of houses and properties with outside space," Zoopla said.

In contrast, demand in inner London is running just two per cent above the 'normal' market average.

Looking at other major cities, Liverpool has performed well as house prices grew by 8.9 per cent in the past year.

Rochdale, Bolton, and Hastings all saw property prices increase over nine per cent during the period, while Belfast, Manchester and Sheffield saw prices rise more than seven per cent.

Sales levels up and down the country are running about 22 per cent higher than they were last year, but buyer demand slipped nine per cent in the first half of July after the initial phase of the Stamp Duty Holiday ended.

However, transaction volumes are still around 80 per cent higher than they would normally be at this time of year.

For our expert advice on property investment, including support with purchasing or disposing property portfolios, please contact us.

Landlords need to prepare for the switch to Making Tax Digital

Landlords need to prepare for HM Revenue & Customs' (HMRC) new Making Tax Digital (MTD) for Income Tax regulations.

As part of the Government's attempts to modernise the tax system, landlords and self-employed people will be required to submit their tax information via MTD-compatible software from 6 April 2023.

In addition to the annual submission, landlords will also be required to complete four quarterly tax summaries throughout the year, for a total of five submissions a year.

HMRC has said it will be fairly lenient while everyone gets used to the new approach, but investors must be ready from day one.

The 2023 date is when anyone making more than £10,000 a year from property should be ready to start recording and filing online. For landlords, that £10,000 figure refers to rental income, not profit.

It's not just a case of switching over to a new online tax reporting system. Landlords must be ready for the big day by signing up for software that aligns with HMRC's online process.

To comply with HMRC's new rules, landlords must also keep digital records. The reason for this, says the Government, is to prevent mistakes.

Updating accounts throughout the year should mean landlords are less likely to miss out on expenses because of lost receipts and should give investors a better appreciation of their annual income.

Landlords can also keep a better eye on cash flow, and it is easier to share tax details with an accountant or letting agent since they are all in the one place.

Despite having to send quarterly updates of income and expenses via the software and HMRC's digital tax account, Landlords will still have until 31 January in the year following the end of the tax year to pay what is due.

Need help getting ready for MTD? Find out how we can help you prepare your tax and accounting process for this landmark change in legislation.

Landlords keen to retain investments, despite tenant issues

Landlords seem determined to retain their investments in rental properties, despite Government changes to Stamp Duty, tax relief and a potential change to Capital Gains Tax, says new research.

At the same time, tenants want longer tenancies to provide more security after a chaotic year during the pandemic.

Research from the buy-to-let property investment specialist, Sequre Property Investment, has found that just 10 per cent of landlords have sold part of their portfolio in the last five years, while just 19 per cent stated they were thinking of selling up in the next five years.

The research also found that most landlords thinking of selling up are doing so because they have become tired of dealing with tenant issues. A close second reason was retirement.

Daniel Jackson, Sales Director at Sequre Property Investment, said: "Investing in property remains one of the safest options you can make in this day and age and so it comes as little surprise that most landlords remain confident with their investment and have no plans to exit the buy-to-let sector.

"It's also interesting to see that the Government has failed to intimidate the nation's landlords, despite a consistent campaign to reduce profit margins and force them out of the sector.

"In fact, more landlords have decided to leave having grown tired of dealing with tenants than they have because of various Government tax changes.

"So, it looks as though the Government will have to actually build some more homes if they wish to address the current housing crisis, rather than rely on hard-working landlords to boost the nation's property stock levels."

Meanwhile, new research suggests an overwhelming number of renters want longer tenancies, a trend pushed further by the uncertainties of the pandemic.

A survey of over 1,100 tenants commissioned by Ascend Properties found that 93 per cent of those asked think that tenancies longer than 12 months should be more widely available within the UK rental market.

Some 81 per cent also stated that the pandemic and the turbulent rental landscape that emerged, as a result, have made them more likely to rent a property for longer than 12 months.

The driving factor behind tenant demand for longer-term tenancy agreements is the security they provide, with many having no choice but to move on at the end of the year should their landlord choose not to renew.

For help and advice with related property matters, please get in touch with our team today.

Non-UK resident companies start to feel the effects of tax changes

Tax changes introduced from 6 April 2020, mean non-UK resident companies, including those who invest in UK property through collective investment vehicles, need to pay Corporation Tax instead of Income Tax on profits from UK property.

Now, more than a year later, landlords are having to get to grips with new rules. The effects are only now just being felt by many non-resident companies as they reach the Corporation Tax return deadline, which is due 12 months after the end of the accounting period it covers, and the Corporation Tax payment deadline, which is nine months and a day after the end of the accounting period.

The new rules ensure that non-resident companies pay Corporation Tax on the profits of UK properties, as well as on profits from loan relationships or derivatives that enable the company to generate the property income.

These profits are dealt with as non-trading loan relationships, rather than as part of the UK property business. Any loan which is not for a trading purpose will give rise to debits (losses) and credits (profits) which are called, respectively, 'non-trading debits' and 'non-trading credits'.

As a result, only the loan relationship debits and credits that relate to the UK property businesses are within the scope of UK Corporation Tax.

If the non-resident company carries on other activities, such as owning properties elsewhere in the world, it will be necessary to stream the relevant UK and non-UK loan relationship debits and credits.

Given this new situation, non-UK resident property businesses must now review their internal accounting systems to ensure the correct amount of interest can be allocated to the UK business, particularly for companies with multiple or complex loan facilities in operation.

Broadly, the rules that apply mirror those that apply to UK-resident companies carrying on a UK property business, but with transitional rules to accommodate the difference in regimes until fully implemented.

Non-resident landlords are subject to the provisions of the non-resident landlords scheme (NRLS). The NRLS has continued to apply to non-UK resident company landlords from 6 April 2020.

Any income tax deducted under the NRLS can be offset against the Corporation Tax liability of the company in respect of that rental income. Landlords are urged to seek expert advice from their accountants on a pressing issue.

For any advice on tax on property transactions and income, please contact us.

5 Technology Park, Colindeep Lane, London, NW9 6BX
T: +44 (0) 20 8458 0083 | **E:** contact@grunberg.co.uk