Grunberg & Co. Chartered Accountants

Property Bulletin

March 2022

Buy-to-let property market enjoys a boom

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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**

Buy-to-let property market enjoys a boom

Buy-to-let (BTL) has been growing in popularity for some time, as many people see it as an effective way to support their income or fund their retirement.

Once seen as the preserve of the 'well to do' with considerable disposable income, or access to large mortgages, more and more people see it as a sound financial investment for their future.

There has been a boom recently, with a new survey showing that over the last four years the number of landlords who have incorporated their buy-to-let properties into a limited company, rather than holding them personally, has doubled.

In total, there were 47,400 new buy-to-let companies incorporated in 2021 across the UK, according to Companies House data, the highest number on record.

However, the research also shows a substantial increase in the number of BTL businesses failing in the same period.

The rate of growth in new incorporations did, however, fall compared to previous years, with a 14 per cent increase recorded between 2020 and 2021, down from a 30 per cent increase recorded between 2019 and 2020.

While individual landlords are effectively taxed on turnover, company landlords are taxed on profit.

This has meant that for some landlords – particularly those who are higher rate taxpayers – it has become more tax-efficient to move their buy-to-let portfolio into a company.

The research, undertaken by property letting firm Hamptons, also shows that more than 15,200 companies closed, around six per cent of the market.

In fact, since the start of the pandemic almost two years ago, some 25,100 such firms have closed for good.

Hamptons' research suggests it is likely that the number of new BTL incorporations in 2021 is probably close to its peak, with fewer expected to be set up in 2022.

This is partly a product of last years' stamp duty holiday, which served to slow the fall in new investor numbers.

Additionally, many investors have wanted to make tax savings by transferring properties to a company – taking advantage of the savings on offer.

The number of BTL companies up and running in the UK passed through the 200,000 mark, as the country emerged from the first lockdown, but by 2021 this figure rose to a new total of 269,300.

Of these companies, 61 per cent have been set up since the withdrawal of mortgage interest relief, which has been tapered down since April 2017.

Hamptons estimates that around half of all new landlord purchases last year used a company to hold their BTL, while 40 per cent of these new purchases went into a company that was less than a year old.

For help and advice on buy-to-let, please contact our team of experts today.

Unlock new tax savings on your property portfolio with capital allowances

Capital allowances are an often-overlooked form of tax relief. It is estimated that less than 10 per cent of UK commercial property owners have claimed capital allowances, despite them being able to access this relief.

Every year billions of pounds of unused allowances are missed, which could help property investors to reduce their tax bills.

Capital allowances are available to landlords, developers and investors incurring capital expenditure either buying or building commercial property or furnished holiday lets. In some cases, it may even be possible to make a retrospective claim on previous investments.

Capital allowances on commercial properties

There are a wide range of capital allowances available to non-residential let properties. One of the most significant is the super-deduction announced in the Finance Act 2021, which offers a 130 per cent relief against qualifying plant and machinery expenditure incurred by companies between 1 April 2021 and 31 March 2023.

This works alongside the 50 per cent first-year allowance for qualifying special rate assets, that was introduced at the same time, which together offer a considerable tax saving to developers and investors in commercial property.

To use these tax schemes a business must be incorporated as a limited company. However, unincorporated businesses, such as partnerships and sole traders, can still make use of capital allowances via the Annual Investment Allowance (AIA) or Writing Down Allowance, which applies to certain types of qualifying plant and machinery, which can be found **here**.

At the moment a temporary extension to the AIA, which boosts the allowance from £200,000 to £1 million, remains in place until 31 March 2023, so business owners should take full advantage of this opportunity to save more.

Do not leave this too late, as any expenditure beyond this date will need to be apportioned using a complex system, which may significantly reduce the amount that can be claimed.

The owner of a commercial property may even be able to claim allowances on capital expenditure incurred by the previous owners if no claim was previously made.

On top of this, if you build, buy or lease a structure and all construction contracts were signed on or after 29 October 2018, you may be able to claim structures and buildings allowance tax relief.

Using this allowance, you can claim on expenditure for:

- Fees for design
- Preparing the site for construction
- Construction works
- Renovation, repair and conversion costs
- Fitting out works.

For incorporated limited companies this offers Corporation Tax relief, while for other businesses it offers income tax relief. Rates vary depending on when the expenditure was made and can be found **here**.

Capital allowances on residential property lettings

Although more limited, capital allowances can be claimed on some forms of residential property. In most cases the relief outlined above that provides relief on qualifying expenditure on plant and machinery cannot be claimed on property businesses that involve a ‘dwelling house’, i.e., a regular residential rental property.

However, a Furnished Holiday Letting (FHL) is treated for income tax purposes as a trade, which means that regular dwelling house capital allowance restrictions do not apply to qualifying FHLs.

Similar to relief for commercial properties, a structures and buildings allowance is available for ordinary property businesses offering similar relief on a structure and all construction if you build, buy or lease a property and the contracts were signed on or after 29 October 2018.

Although most landlords of furnished and unfurnished properties cannot claim capital allowances, they can use the Replacement of Domestic Items Relief.

However, while landlords may not be able to claim capital allowances on the properties they own, they may be able to claim capital allowances on the cost of office furniture and equipment, including motor vehicles, used in their own business.

Think you might be eligible for capital allowances?

With the end of the tax year just around the corner, now is an ideal time to review your tax planning – in particular, your use of capital allowances.

If you need assistance with claiming capital allowances or would like more advice on their benefits to you and your property business, please speak to us.

Tax loophole for second homeowners to be closed

The Government has announced its intention to close a tax loophole that could leave second homeowners facing higher bills.

Michael Gove, Secretary of State for Levelling Up, Housing and Communities, has confirmed that the Government will introduce new rules next year that will only allow second homeowners to register for business rates relief if they can prove they rent out their properties for at least 70 days per year.

Owners could face paying more than £1,000 a year under plans to close the loophole.

As the rules stand, second homeowners pay business rates, which are cheaper than council tax, if they make their property available for letting for 140 days in the coming year.

But once the change takes place in April next year, homeowners will have to prove they are let for at least 70 days a year or be forced to pay council tax instead.

The move comes following a surge in the number of holiday lets in England, with around 65,000 residential units currently registered, up from 50,960 in 2019.

The Department for Levelling Up, Housing and Communities (DLUHC) also says that there is currently ‘no requirement’ to produce evidence that a second home has actually been let out – not just left empty.

The DLUHC says the move would protect ‘genuine’ small holiday letting businesses and ensure second-home owners paid a ‘fair’ contribution towards public services.

Mr Gove’s plans come after a consultation launched in 2018 and threats last year by the Treasury to close the loophole.

According to reports, the number of holiday lets in England has been increasing year on year from 50,960 in 2019 to 65,000 now.

The COVID-19 pandemic is said to have fuelled the trend, as London and other city dwellers sought to escape to the countryside.

Levelling Up Minister Chris Pincher replied: ‘We have committed to close the loophole in the business rate system.’

For help and advice on property tax, please get in touch with our expert team today.

Northern cities remain seven times less expensive than London

You would probably have been living in a cave for several years not to know that houses in London are much more expensive than in most other parts of the UK.

But new research shows that they are now a staggering seven times more expensive than houses in the north of the country, according to data produced by investment company Open Property Group.

The data used in the survey was house price per square metre, with an average house price in the capital of £7,731 per square metre.

In comparison, houses in Stoke-on-Trent sell for an average of £1,104 per square metre, while Bradford is close behind, selling at £1,307 per square metre.

Major cities in the north, including Stoke, also lagged substantially behind the capital, falling below £2,000 per square metre.

Here are the top results of the Open Property Group study:

City	House price per square metre
London	£7,731
Leeds	£1,684
Manchester	£1,684
Newcastle	£1,534
Sheffield	£1,553
Liverpool	£1,309
Bradford	£1,307
Stoke-on-Trent	£1,104

According to separate data from HM Land Registry, on average, house prices have decreased 1.1 per cent since September 2021, but there has been an overall annual price rise of 10.2 per cent, which makes the average property in the UK valued at £268,349.

Open Property Group's Managing Director, Jason Harris-Cohen, explained that while the British public is used to seeing a house price that reflects the entire property package, knowing the actual cost per square metre is 'a far more effective way' of evaluating value for money.

"Using this method, buyers can compare the price of a like-for-like size property anywhere in the country, without superficial factors in the equation, which is essential for buy-to-let purchasers or anyone looking to add value," he said.

For help and advice on purchasing or selling a property, including the tax and stamp duty implications, please get in touch.

UK experiencing rent rise due to tenant demand

According to new research, landlords across the UK have benefitted from rising rents due to a growing demand and fierce competition for rental properties.

This trend has given them the ability to increase rents to keep up with the rest of the market – a situation that many hope will remain for some time to come.

According to Zoopla's data, this doesn't look to be changing any time soon. They have reported that the number of available rental properties is 43 per cent below the five-year average – increasing demand among tenants searching for a new home.

As a result of this, despite the challenges of the pandemic, UK rents increased on average by 4.6 per cent year-on-year between September 2020 and September 2021.

In fact, if you exclude the Greater London area, where rent rises have been more subdued, average rents rose by 8.6 per cent during that same period according to Rightmove. This is the highest growth on record in the last 13 years.

Chris Norris, Policy Director for the National Residential Landlords Association said: "2021 showed some signs of recovery for the private rented sector, which tends to be counter-cyclical in nature, with economic uncertainty leading more people to rent rather than commit to large purchases.

"Demand for rental accommodation increased across the UK, with some early indications that tenants are also returning to London after many left during lockdown."

Looking ahead, experts have said that rent rises in the next 12 months will, in part, depend on whether demand continues to outstrip the number of suitable homes.

As a result of this, Propertymark has explained that some estate agents are warning cautious landlords to retain their portfolios, despite the demands of new regulations and tax rules.

Nathan Emerson, Chief Executive of Propertymark, added: "Looking into the private rented sector, rental income is poised to remain strong as demand holds steady."

If you need advice regarding your property portfolio and the impact of rising rents, please speak to us.

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