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Latest News

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Property & Construction

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Latest News

Stephen Charles
Tax Partner

Introduction

Welcome to our latest edition of our property and construction newsletter.

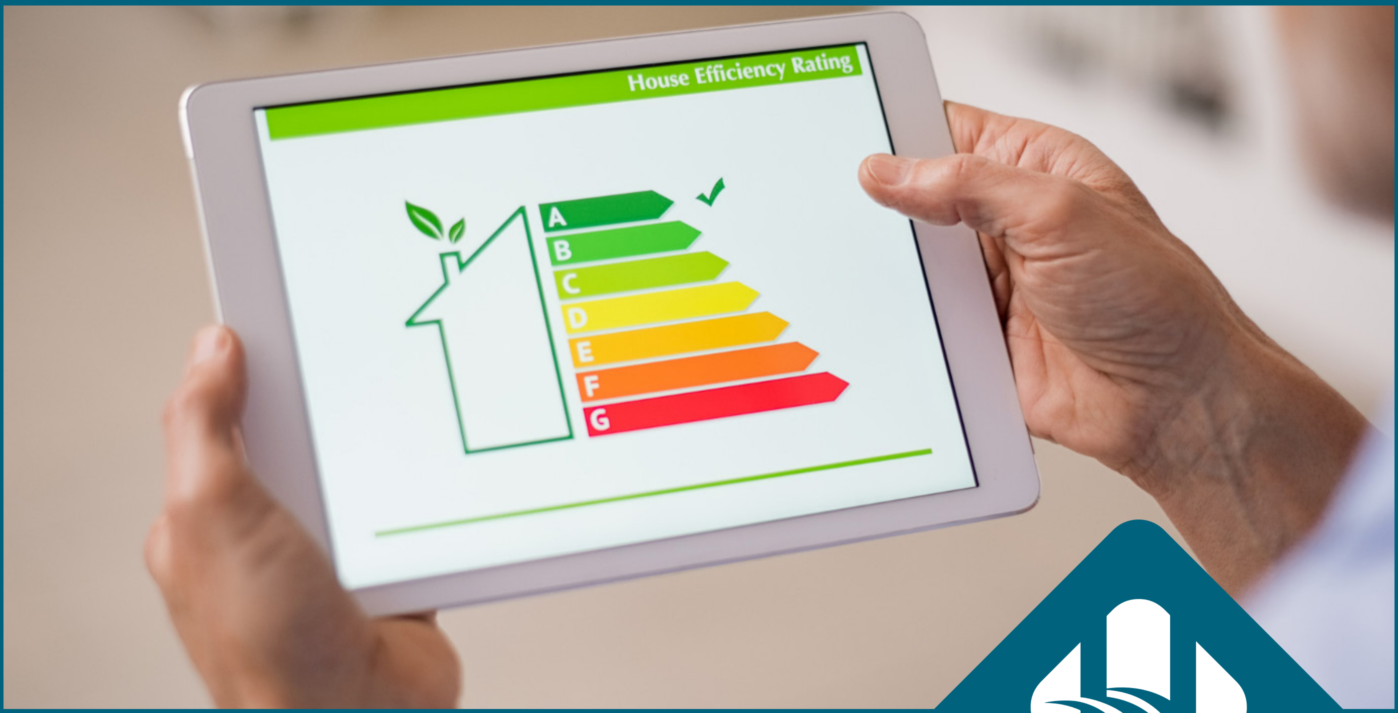
There is currently a lot going on in the world of property and construction with proposed changes to EPC rules in 2028 being scrapped by the Prime Minister, as well as the potential impact of the Renters Reform Bill providing tenants with extra security against eviction.

In this edition of the newsletter we are going to be covering the following:

- Proposed Changes to EPC Rules for Landlords in 2028 - Scrapped
- Landlords advised to review tax affairs ahead of new database
- Average inheritance tax bill reaches £214K
- Easing of tax rules for divorcing couples confirmed
- UK Rental Market Shrinks by 400,000 properties

If you have any questions about the contents of this newsletter please do hestitate to contact me using the contacts details on the back of this newsletter.

Stephen Charles



Proposed Changes to EPC Rules for Landlords in 2028 - Scrapped

In a recent review of the government's green policies, Prime Minster Rishi Sunak has decided to scrap the proposed introduction of stricter minimum energy efficiency standards for rental properties.

The original proposed changes set out that all tenanted properties, both existing tenancies and new ones, would need to have an EPC rating of at least band C from 2028. However, this has now been scrapped after a review by the government. The current rules which have been around since 2018 set out that all let properties must have an EPC rating of at least band E.

Whilst it is now not a requirement for landlords to have an EPC rating of at least band C in their rental properties, Rishi Sunak has said that he will still 'encourage households to do so where they can'. Of course, there is a General Election not so far away and a new Government could take a different view.

What does this mean for landlords?

Landlords may see this as positive news as they are no longer required to invest in raising the energy efficiency standards of their property. However, some landlords have already invested considerable sums knowing these changes were on the horizon and will now feel that they have been unfairly treated. However, if landlords want to remain competitive in the market it may well be worth improving the energy efficiency of their properties anyway as they should be more appealing to potential tenants because they will spend less on their energy bills.

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Average inheritance tax bill reaches £214K

With house prices soaring, more estates are now being subject to inheritance tax as the average inheritance tax bill reaches £214K.

In the 2020-21 tax year, inheritance tax was charged on 27,000 estates. An increase of 4,000 compared to the previous year. This raised a record £5.76bn in taxes and it is predicted that this figure is set to rise to £8bn by 2028. Estates valued over £1m were liable for 81% of tax paid. Despite inheritance tax being charged at 40% on the excess, the average rate paid was 13% due to tax free allowances, reliefs and exemptions.

Importance of inheritance tax planning

With values of assets increasing due to inflation the importance of careful inheritance tax planning cannot be overstated. Inheritance tax planning can help you reduce or even remove the amount of tax your loved ones will have to pay when they inherit your estate.

Below are some of the measures that you can take to reduce your inheritance tax liability:

Use lifetime exemptions (Gifts)

One of the most simple and effective ways you can reduce your inheritance tax is by making use of lifetime exemptions. These include the Annual Gift Allowance, which allows you to gift up to £3,000 per tax year in cash or assets. There is also the small gifts exemption where you can gift up to £250 to as many individuals as you like except for those who have already received a gift as part of the £3,000 annual exemption. Finally, you can also make a wedding gift. Where the amount you can gift tax-free depends on their relation to you.

- Child: £5,000 or less
- Grandchild or great-grandchild: £2,500 or less
- Other relative or friend: £1,000

Spend your cash!

There is no inheritance tax charge on normal expenditure! This will reduce the value of your estate and result in less inheritance tax being paid. Surplus income building up just makes things worse.

Regular gifts made out of surplus income are immediately exempt. But it is important to establish a regular pattern of giving and keep records to demonstrate that the donors regular expenditure is unaffected and thier income is sufficient to cover the expenditure of the gifts.

Continued overleaf

Average inheritance tax bill reaches £214K (continued)

Setup a trust

Setting up a trust can be an effective way of reducing your inheritance tax bill. In simple terms, a trust is a legal agreement where you give cash, property or investment(s) to someone else (trustee) to look after for the benefit of the third person (beneficiary). One of the most common examples of this is when giving cash, property or investment to your child (trustee) to look after for your grandchild or grandchildren (beneficiary).

Whilst trusts can be a great way of reducing your inheritance tax it is important to be aware that when you put cash, property or an investment into a trust it no longer belongs to you, it belongs to the trust and you cannot benefit from the trust. This is the reason why it will fall outside of your estate for inheritance tax purposes.

Rules regarding trusts can be complex so it is recommended to seek professional financial advice when setting up a trust.

Donate to charity

Donating money to UK registered charities over your lifetime will always be free from inheritance tax. Furthermore, if you leave 10% or more of your estate to a registered charity the inheritance tax rate for the rest of your estate will also fall from 40% to 36%.

Leave your estate to your spouse

If you are married or in a civil partnership your spouses estate will be left entirely to you with no inheritance tax (assuming you are UK domicile. However, if you have a partner but are not married or in a civil partnership there is no automatic right for your partner to inherit your estate tax-free.

Conclusion

To conclude, with the average inheritance tax bill increasing to £214,000 it has never been more important to consider inheritance tax planning. There are many inheritance tax planning opportunities available to reduce the amount of inheritance tax your loved ones will pay on your estate and not all of these involve you losing access to your money. Gifting, spending your cash, setting up a trust, donating to charity and leaving your estate to your spouse are just the starting point.

Landlords advised to review tax affairs ahead of new database

Renters Reform Bill

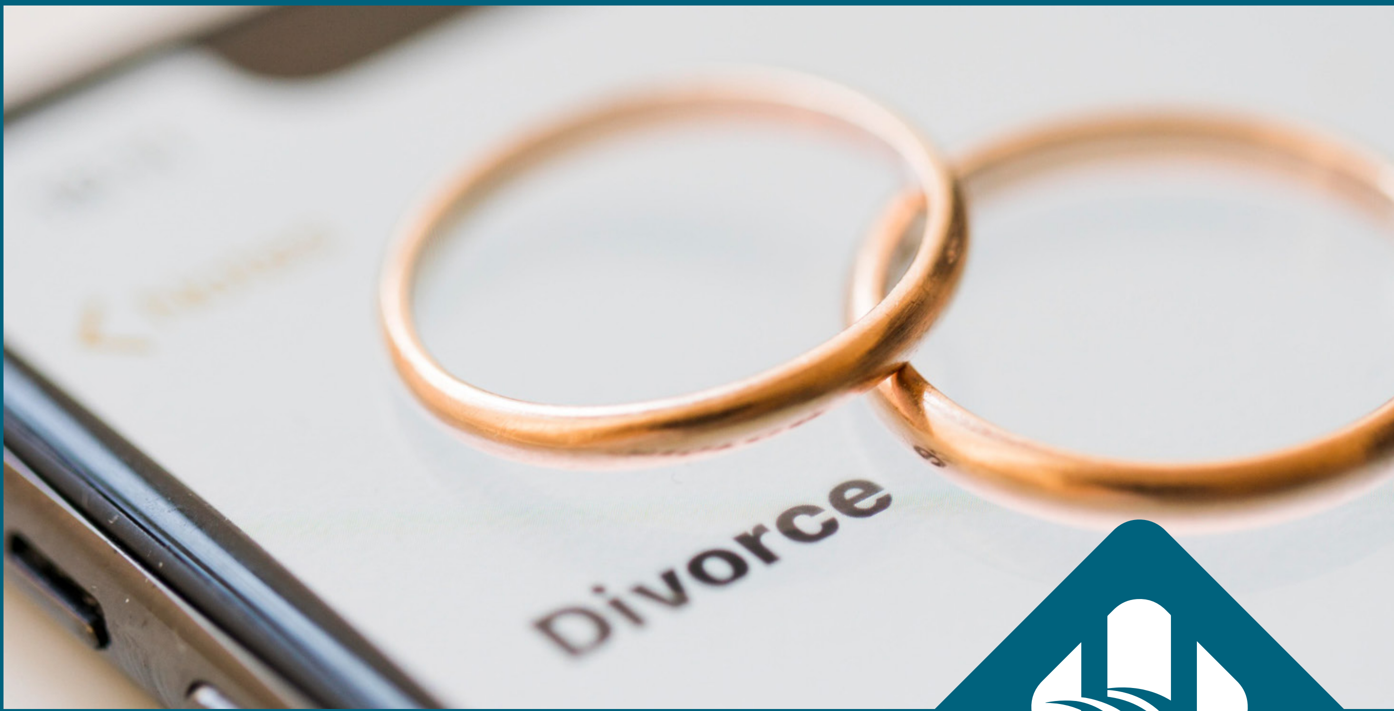
As part of the new Renters Reform Bill the Government is planning to launch a new landlord database. This database has the potential to provide HMRC with large amounts of information regarding landlords which they will be able to identify landlords who have not properly declared rental income and gains.

When the new private rented sector database is introduced, landlords that want to rent out properties in the private sector will be required to register on the database. Although HMRC have not said they will use this data for compliance activities it is assumed that they will as the database will be publicly accessible. Furthermore, they will be able to combine this data from the private rented sector database with data they already have. This will shine the light even brighter on those landlords that do not currently comply with tax rules.

Landlords should check taxes are in order

With the new Renters Reform Bill on the horizon we would certainty recommend that landlords who have any concerns should review their tax affairs and take steps to bring them up to date. Declaring any mistakes and correcting your tax position voluntarily will result in lower penalties compared to being identified by HMRC. For those that wish to voluntarily correct mistakes they can do so via the Let Property Campaign.

If you are a landlord and are unsure regarding your tax position with HMRC we would certainty recommend reviewing your position. If you are unsure speak to our tax advisors who will be able to assist you to check your tax position and guide you through the process of correcting your tax position voluntarily.



Easing of tax rules for divorcing couples

New legislation easing the tax rules for divorcing couples has received Royal Assent. This confirms announcements made by the Chancellor in the Spring Budget 2023. The changes apply in relation to disposals of assets made on or after 6 April 2023.

What were the previous tax rules regarding divorce?

Married couples and civil partners can transfer assets such as property, shares or business interests between them without incurring capital gains tax (on a 'no gain, no loss' basis). However, under the previous rules, when a couple separated they could typically only benefit from this treatment until the end of the tax year in which the separation occurs. For example, a couple that divorced in March 2022 could only transfer assets without incurring tax up to 5 April 2022. If a transfer was made after the tax year of separation, this could result in unwelcomed capital gains tax charges.

What are the capital gains tax changes?

The changes announced allow divorcing couples longer to arrange their affairs. From 6 April 2023, couples have up to three years after the year they cease to live together to transfer assets on a no gain, no loss basis. If the transfer is made as part of a formal divorce agreement, the couple have potentially an unlimited period to benefit from this treatment.

The changes will also benefit a spouse or civil partner who has moved out of the property before it is sold, or transferred to the remaining spouse. The spouse who retains an interest in the former matrimonial home will be given an option to claim Private Residence Relief when it is sold.

Individuals who have transferred their interest in the former matrimonial home to their ex-spouse or civil partner and are entitled to receive a percentage of the proceeds when the home is eventually sold will be able to apply the same tax treatment to those proceeds when received that applied when they transferred their original interest in the house to their ex-spouse or civil partner.

Will these change benefit couples who have not been married or entered a civil partnership?

These changes will only help couples divorcing following the breakdown of a marriage or civil partnership. Couples who have not been married or entered a civil partnership do not have access to the no gain no loss treatment.

Craig Walker, Tax Director at Hawsons, commented "The proposed changes are welcome and sensible. They will provide many divorcing couples with an extended time period to transfer assets such as their home without triggering tax. It can take time to agree a split of assets and this relaxation will reduce the time pressure for couples"

UK Rental Market Shrinks by 400,000 properties

Introduction

Since 2016, the private rental market in the UK has shrunk by around 400,000 homes. In this article, we will look at the reasons for this trend.

Landlord Policy changes

A report by CBRE has found that policy changes over the last ten years has increased the amount of tax that landlords will need to pay when purchasing a property and on the rental income. In particular the restrictions around tax relief for interest on borrowing has significantly increased the tax liabilities of many landlords. In addition, policy changes have increased tenant protection while increasing obligations in respect of energy efficiency. While these policies may have been beneficial for renters, they have discouraged some landlords from entering or staying in the market. More regulations have made it increasingly challenging for landlords and less appealing to new landlords looking to enter the market.

Stamp Duty Land Tax

The government's decision to introduce a minimum 3% additional stamp duty on second homes and buy-to-let properties in April 2016 has also deterred potential investors as this has increased the upfront cost of purchasing a rental property. This has discouraged landlords from expanding their portfolio.

Higher mortgage rates

In more recent times, mortgage rates have risen sharply. At the start of 2022, the Bank of England's base rate was 0.25%. The base rate is currently 5.25%. This has led to significantly higher mortgage costs for those landlords who have brought a buy to let via a mortgage.

Increased inflation

Furthermore, recent inflation, particularly within the construction industry, is also increasing the general costs of owning and managing a property.

Continued overleaf

UK Rental Market Shrinks by 400,000 properties (continued)

What does this mean for renters?

For renters, the shrinking rental market has drastic consequences. Reduced rental property availability will lead to increased competition among tenants which is likely to result in increased rent prices. Due to the increased price, some renters may be forced to compromise on living conditions or location because of the limited availability.

What does this mean for landlords?

For landlords, the shrinking rental market also has an impact on them. Due to market waning, landlords may struggle to sell their properties if they wish to exit the rental market.

Conclusion

To conclude, over the past 7 years, a number of factors have contributed to the increased cost of landlords purchasing and managing a rental property. The shrinking market means that many tenants are now paying more rent due to increased competition among renters.

Get in touch

Property & construction experts

Hawsons has a dedicated team of specialist property and construction accountants in Sheffield, Doncaster and Northampton.

Having an accountant who understands the challenges of this dynamic sector and is able to help you plan for the future is an advantage in a competitive environment. At Hawsons we have a great deal of experience in advising and helping businesses in property and construction and we can assist you as your business grows.

Our in-house tax team has advised in many aspects of taxation specific to the property investor including in the areas of VAT, Stamp Duty Land Tax, Capital Allowances, Income Tax, and Corporation Tax and Capital Taxes.

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