Letting UK Property - Beware the Taxman!

Thousands of landlords are being chased by the HMRC as they try to catch out those people who are under-declaring property income.

The drive to increase tax revenue from rental income is part of HMRC's 'Let Property' campaign, which started in September 2013 and is specifically aimed at landlords.

The number of landlords found to have under-paid or under-declared tax on letting income rose by 51% during 2018, this is according to a Freedom of Information request submitted by the Telegraph newspaper.

In 2017, the HMRC, using it's 'Connect' software, identified more landlords it suspected of not paying enough tax and sent them letters asking for payment or an explanation. This resulted in tax revenue up some 67% to almost £33 million, and £5.6million of fines.

The 'Connect' software was introduced in early 2017, with its sole job being to connect and analyse information from government databases and other sources, such as bank accounts, credit card transactions, car purchases, and even social media comments.

If the HMRC catches landlords who have not paid the right amount, it can reclaim up to 20 years' worth of these payments. It can also fine the landlord up to 100% of the value of the unpaid tax - and bring criminal charges.

If a landlord has made an honest mistake with under-paying tax and they admit it, the tax office will only reclaim tax going back six years and will charge smaller fines, if they decide to fine at all. Once you tell the HMRC about undisclosed income you have 90 days to pay the correct amount due, including any interest and penalties.

It has also become harder for landlords to work out their taxable income recently, due to two government changes.

Firstly - Until April 2016 landlords could deduct 10% of net rent from their profits every year to cover repair costs for their properties, known as the "wear and tear allowance".

Landlords could claim the tax offset even if no repairs were made. Now they can only claim relief on costs they actually incur when replacing items in a let property. As this change has not been widely publicised, many landlords are unaware of the change.

Secondly - Landlords with a buy-to-let mortgage have additional problems calculating their taxable income.

Before April 2017, landlords were allowed to deduct 100% of their mortgage interest payments from their taxable income.

Since then the amount of mortgage interest that can be deducted by higher-rate taxpayers has fallen to 25% and will fall to zero in 2020. It will be replaced by a 20% tax credit.

It does seem that not only is the additional tax hitting landlords, but so is the cost of getting an accountant to check what they've done is right.