

2026/27 EDITION

TAX PLAYBOOK

# The 2026/27 UK Landlord Tax Playbook

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A practical guide to mortgage interest restriction, CGT, incorporation, MTD ITSA, FHL abolition, IHT and HMRC enquiry triggers

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# About this guide

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This playbook is written for UK residential property landlords — whether you own one buy-to-let, a small portfolio, or are scaling into double-digit properties. It covers the tax rules that apply to the 2026/27 tax year (6 April 2026 to 5 April 2027), with reference to the changes that have already happened and those that are coming.

The aim is practical, not academic. Every section ends with what to actually do — not just what the law says. Where rules have changed recently (Section 24, the Furnished Holiday Let abolition, the increased Stamp Duty surcharge, MTD for Income Tax, the BPR cap), this guide tells you what's different and what it means for your portfolio.

## Who this is for

- Individual landlords with one or more residential lets
- Couples with jointly-owned property
- Landlords considering whether to incorporate their portfolio
- Property investors with mixed-use, FHL, or commercial holdings
- Non-resident landlords managing UK property from overseas
- Anyone planning the next phase of an established portfolio (succession, sale, or restructure)

### Important — please read

Tax rules change frequently and apply to specific facts. Nothing in this guide is personal tax advice. Before acting on any of the strategies described here, talk to a qualified adviser. The Tax Lead offers a free 30-minute discovery call to discuss your situation — book one at [thetaxlead.co.uk](https://thetaxlead.co.uk).

All rates and thresholds are correct at the time of writing (May 2026) and reflect the position for the 2026/27 tax year. Where 2027/28 changes are confirmed, they are flagged.

## How to use this guide

You can read it cover-to-cover or jump to a specific section using the contents below. Each main section is self-contained — you don't need to read what came before to understand what you're reading now. Cross-references are included where relevant.

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# 01

## CHAPTER ONE

# The 2026/27 landlord tax landscape

Five years of structural change have fundamentally reset the economics of UK buy-to-let. Understanding what's changed — and what's coming — is the foundation of every other decision in this guide.

# 1. The 2026/27 landlord tax landscape

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The tax position of a UK residential landlord in 2026/27 is very different from where it was five years ago. A series of changes — some phased, some sudden — have systematically reduced the relative attractiveness of personal-name buy-to-let. Understanding the cumulative effect matters because it determines whether the structure you own property in today is still the right one.

## What's changed in the last 24 months

The most significant changes affecting landlords with effect from late 2024 onwards:

- **SDLT additional dwellings surcharge increased from 3% to 5%** on completions from 31 October 2024. This is the single biggest acquisition cost change in years.
- **Multiple Dwellings Relief (MDR) abolished** for transactions completing on or after 1 June 2024. Removes a planning route for portfolio purchases and granny annexes.
- **SDLT nil-rate band reverted to £125,000** from 1 April 2025 (was £250,000 during the temporary holiday). Compounds with the surcharge increase.
- **Furnished Holiday Let regime abolished** from 6 April 2025 (1 April 2025 for companies). FHLs lose the 10% BADR rate, capital allowances, full mortgage interest relief, hold-over and roll-over reliefs, and pension relevant earnings status.
- **CGT residential rates reduced** from 28% to 24% for higher-rate taxpayers (announced March 2024 Budget). Basic rate stayed at 18%. The CGT annual exemption fell to £3,000.
- **Corporate non-natural persons SDLT rate** on residential properties over £500,000 increased from 15% to 17% from 31 October 2024.

## What's changing in 2026/27 and beyond

- **MTD ITSA goes live April 2026** for landlords (and sole traders) with gross income above £50,000. Quarterly digital submissions plus a year-end final declaration. The £30,000 threshold follows in April 2027, then £20,000.
- **Business Property Relief £1m cap** from 6 April 2026 — affects landlords with relevant business property holdings, particularly trading-side activities.
- **Incorporation Relief must be actively claimed** in the Self Assessment return for the year of transfer from 6 April 2026 (Finance Bill 2025-26). It no longer applies automatically.

## The cumulative effect

Take a single example to see how the changes compound. A higher-rate landlord buying a £400,000 buy-to-let in 2022/23 paid SDLT of £22,000 (3% surcharge across pre-existing bands). The same purchase in 2026/27 attracts SDLT of **£30,000 — a 36% increase** in acquisition cost on the same property at the same price.

Add to that: less generous CGT rates on disposal, no MDR for portfolio purchases, the FHL workaround is gone, and quarterly MTD compliance from 2026. Each individual change is manageable. The cumulative weight is what's pushing many landlords to either incorporate, divest, or fundamentally restructure how they hold property.

***This guide is not a counsel of doom. UK residential property is still a viable long-term investment. But the days when buy-to-let could run on autopilot are over.***

# 02

## CHAPTER TWO

# Section 24: the mortgage interest restriction in practice

The single biggest tax issue for higher-rate landlords with mortgaged buy-to-lets. Understanding exactly how it works is the first step to managing it.

## 2. Section 24: the mortgage interest restriction in practice

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Section 24 of the Finance (No. 2) Act 2015 is the rule that restricts mortgage interest relief for individual landlords. It has been fully phased in since 2020/21 and is the single biggest tax issue for higher-rate landlords with mortgaged buy-to-lets.

### How the restriction works

Before Section 24, mortgage interest was deducted as a normal trading expense — reducing taxable profit. After full phasing-in (2020/21 onwards), interest can no longer be deducted. Instead, you receive a tax reduction at the basic rate (20%) on qualifying finance costs.

### The mechanics

1. Calculate rental profit ignoring mortgage interest entirely
2. Add this profit to your other income to determine your tax bracket
3. Calculate income tax on the rental profit at your marginal rate
4. Reduce the tax bill by 20% of the lower of: mortgage interest paid, rental profits, or your unused tax allowances

### Worked example: higher-rate landlord with one BTL

Sarah is a higher-rate taxpayer with employment income of £75,000. She owns one buy-to-let:

| Item                                                       | Amount        |
|------------------------------------------------------------|---------------|
| Annual rent                                                | £18,000       |
| Allowable expenses (excl. mortgage)                        | £3,500        |
| Mortgage interest paid                                     | £8,400        |
| Profit per HMRC (excludes mortgage)                        | £14,500       |
| Tax at 40% on £14,500                                      | £5,800        |
| Less: 20% basic rate reduction on £8,400 mortgage interest | (£1,680)      |
| <b>NET TAX ON RENTAL PROFIT</b>                            | <b>£4,120</b> |

| What it would have been pre-Section 24 | Amount             |
|----------------------------------------|--------------------|
| Profit including mortgage deduction    | £6,100             |
| Tax at 40%                             | £2,440             |
| <b>Extra tax due to Section 24</b>     | <b>£1,680/year</b> |

#### THE HEADLINE NUMBER

**Sarah's effective tax rate on her rental profit is now 67% (£4,120 tax on £6,100 real profit), versus 40% before the rules changed.**

## Who Section 24 hits hardest

- **Higher and additional rate taxpayers** with mortgaged residential rental property. The bigger the gap between marginal rate (40% or 45%) and the 20% relief rate, the larger the impact.
- **Landlords pushed into higher rates** by the rule itself. Adding back mortgage interest to profit can push otherwise basic-rate taxpayers into the higher band — they then pay 40% on the same income.
- **Landlords losing personal allowance.** The £100,000 income threshold for personal allowance taper now bites earlier because rental income is calculated without mortgage relief.

- **High loan-to-value portfolios.** A 75% LTV portfolio is hit much harder than a 40% LTV portfolio — interest as a proportion of rental income matters.

## What Section 24 does not affect

- Companies — limited companies still get full mortgage interest deduction against rental profits at corporation tax rates
- Commercial property — only residential is affected
- Furnished holiday lets BEFORE 6 April 2025 (now caught — see Section 4)
- Landlords without mortgages — if you own outright, Section 24 is irrelevant

## Practical responses to Section 24

### Option 1: Pay down debt

Reducing the mortgage balance reduces the interest restriction. Capital from elsewhere (ISAs, savings, or even reducing pension contributions temporarily) can be used to deleverage. Worth modelling against the opportunity cost of the cash deployed.

### Option 2: Switch to interest-only with lower rates

The 20% relief still applies — so a lower interest rate proportionally reduces both the cost AND the lost relief. Refinancing onto better rates (where available) is more valuable than it was pre-Section 24.

### Option 3: Income-shift to a basic-rate spouse

If your spouse is in a lower tax band, formally restructuring beneficial ownership of the property (and submitting Form 17 where ownership is unequal) can shift rental income to be taxed at 20% rather than 40%. Joint ownership is covered in Section 9.

### Option 4: Incorporate the portfolio

Companies aren't subject to Section 24 — they deduct mortgage interest in full. But incorporation has CGT, SDLT and ongoing costs. See Section 7 for the full analysis.

### Option 5: Sell underperforming properties

If a property's net yield (after Section 24 tax) is barely positive, the capital may be better deployed elsewhere. Forced honesty about which properties actually make money is something Section 24 has done for the sector, even if painful.

 **Practical tip**

Run a Section 24 impact calculation on each property in your portfolio individually. Some properties will still be profitable; others may now be loss-making after tax. Asset-by-asset clarity is the foundation of every other decision.

# 03

## CHAPTER THREE

# **Allowable expenses — what you can and can't deduct**

The 'wholly and exclusively' test is simple to state and difficult to apply. This section sets out what HMRC will accept and where the disputes happen.

## 3. Allowable expenses — what you can and can't deduct

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The 'wholly and exclusively' test is the foundation of allowable expenses. To be deductible against rental income, an expense must be incurred wholly and exclusively for the purpose of the property business. That sounds simple. The application is where landlords trip up.

### Standard allowable expenses

- Letting agent fees and commission
- Property management fees
- Legal fees for letting (not purchase)
- Accountancy fees relating to rental income
- Buildings and contents insurance for the let property
- Ground rent and service charges (leasehold)
- Council tax during void periods (if you, not the tenant, are liable)
- Utility bills you pay (gas, electricity, water — usually only HMOs)
- Cleaning and gardening between tenancies
- Direct repair and maintenance costs
- Bank charges and interest on dedicated landlord accounts (not mortgage interest — that's restricted under Section 24)
- Travel costs to and from the property — at the approved mileage rate (45p/mile up to 10,000 miles, then 25p)
- Replacement of domestic items relief (see below)

### The repairs vs improvements distinction

This is where most disputes with HMRC happen. The principle: **repairs are revenue (deductible immediately); improvements are capital (added to base cost for CGT only).**

#### Repairs (immediately deductible)

- Replacing a broken boiler with an equivalent model
- Re-pointing brickwork that's deteriorated

- Repainting and redecoration
- Replacing a damaged roof tile
- Like-for-like kitchen replacement (if old kitchen was genuinely worn out)
- Replacing single-glazed windows with double-glazing — HMRC accepts this as a repair given double-glazing is now the modern equivalent

## **Improvements (capital — not deductible as expense)**

- Adding a conservatory or extension
- Loft conversion creating new bedroom
- Upgrading a basic kitchen to a high-spec kitchen (the upgrade element is capital)
- Installing central heating where there was none
- Adding a downstairs WC
- Converting a house into multiple flats

### **Watch out**

HMRC's position on like-for-like replacements has narrowed in recent years. If you replace standard appliances with premium versions, the upgrade element may be treated as capital. Document what was there before, what you replaced it with, and the price difference.

## **Replacement of Domestic Items Relief (RDIR)**

This is the rule that lets you deduct the cost of replacing furniture, white goods, soft furnishings and crockery in a let property. The original 10% wear-and-tear allowance was abolished in 2016.

### **How RDIR works**

You can claim a deduction for:

- The actual cost of the replacement item (like-for-like)
- Plus delivery and installation costs
- Plus the cost of disposing of the old item
- LESS any amount received from selling or part-exchanging the old item

The replacement must be like-for-like — if you upgrade (e.g., from a basic washing machine to a premium model), you can only claim the cost of an equivalent basic replacement.

## What RDIR doesn't cover

- **The first installation** of furniture or appliances in a property — that's capital
- **Fixtures** — items that are integral to the building (e.g., baths, fitted kitchens, central heating). These are normally capital but can sometimes be a repair if replacing like-for-like.
- Properties subject to Rent-a-Room relief
- Properties that previously qualified as Furnished Holiday Lets, where capital allowances were claimed (pre-April 2025)

### **Practical tip**

Keep purchase receipts, delivery confirmation, and disposal evidence (e.g., charity collection note) for at least 6 years. RDIR claims are commonly checked in HMRC enquiries.

## Travel costs — the 'wholly and exclusively' test

Travel to the property is allowable if the trip is wholly for the property business. You can claim either actual costs (with receipts) or HMRC's approved mileage rates (45p/mile up to 10,000, 25p thereafter).

If a trip combines property business and personal activity (e.g., visiting the property and then continuing to a holiday), you generally cannot claim — the 'wholly and exclusively' test fails. Some landlords incorrectly claim mileage for any trip that touches the property; this is a common HMRC enquiry trigger.

### **Common mistake**

Claiming travel between your home and a single property you live near, where there's no clear business purpose for that specific trip, is challenging. HMRC will ask: what did you do at the property? What evidence do you have? A diary entry of 'inspection' is unlikely to be sufficient on its own.

## Pre-letting expenses

Expenses incurred before a property is first let can be claimed if they would have been allowable had the property been let at the time, and were incurred within 7 years of the start of the rental business. This covers things like initial repairs, advertising, and legal fees for the first letting.

Capital improvements before letting are not allowable as expenses — they go to the property's base cost for CGT purposes.

## Common HMRC challenges in this area

- Mortgage interest claimed in full instead of restricted (post-Section 24)
- Personal use of property treated entirely as let (where you stay there occasionally)
- Furniture/appliance upgrades treated as repairs
- Travel claims without supporting evidence of business purpose
- Capital improvements treated as repairs
- Costs relating to multiple properties not properly apportioned

# 04

## CHAPTER FOUR

# The Furnished Holiday Let regime: now abolished

After 40 years, the FHL tax regime has ended. This section covers what's been lost, what remains, and how former FHL landlords should respond.

## 4. The Furnished Holiday Let regime: now abolished

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The Furnished Holiday Let (FHL) regime ended on 5 April 2025 for individuals (31 March 2025 for companies). For 40 years, FHLs were treated more favourably than standard residential lets — taxed broadly as if they were trades. That favourable treatment is now gone.

### What FHL landlords have lost

Five tax advantages disappeared on 6 April 2025:

- **Full mortgage interest relief.** FHL profits are now subject to Section 24 — relief is restricted to 20% as a tax reduction, not a deduction.
- **Capital allowances on furniture and fittings.** Replaced by the much narrower Replacement of Domestic Items Relief (only allows like-for-like replacement, not initial purchase).
- **Business Asset Disposal Relief (BADR) on sale.** The 10% CGT rate (up to £1m lifetime) no longer applies to FHL disposals. Standard residential property CGT rates of 18% / 24% now apply.
- **Hold-over relief for gifts and Roll-over relief for replacements.** Both gone — disposals trigger immediate CGT.
- **Pension relevant earnings status.** FHL profits no longer count towards the income that supports tax-relievable pension contributions. For landlords with no other earned income, this can cap pension contributions at £3,600 gross.

### What FHL landlords still have

- Joint income split flexibility — but only if Form 17 was signed AFTER 5 April 2025 and received by HMRC by 6 May 2025 (otherwise default 50:50 split applies)
- Rollover of existing capital allowance pools — Writing Down Allowances on equipment in the pool by 5 April 2025 can continue to be claimed against ongoing rental profits
- Pre-6 April 2025 disposals can still benefit from BADR if completed before that date — but anti-forestalling rules apply to contracts exchanged after 6 March 2024

## Anti-forestalling — the trap that catches the unprepared

HMRC anticipated that landlords would try to lock in BADR by exchanging contracts before April 2025 to dispose later at the 10% rate. Anti-forestalling rules prevent this for connected-party transactions:

- Contracts exchanged on or after 6 March 2024 that complete after 5 April 2025
- Where the parties are 'connected' (typically family members or related companies)
- In these cases, BADR, hold-over and roll-over reliefs are denied unless very specific conditions in the legislation are met

### **Watch out**

If you exchanged contracts to gift an FHL to your children between March 2024 and April 2025, hold-over relief may not apply on completion. Get a CGT calculation done now — the tax bill could be substantial.

## Strategic responses for former FHL landlords

### **Option 1: Continue as standard property letting**

Many former FHLs are simply continuing as short-term lets without the tax wrapper. Profits are now taxed under the standard residential property rules. Less attractive financially, but operationally unchanged.

### **Option 2: Switch to long-term residential letting**

Operating as a normal AST landlord removes the management overhead of holiday letting (changeovers, cleaning, marketing). Income is typically lower per night but more predictable, and council tax / business rates positioning may simplify.

### **Option 3: Incorporate the FHL business**

The FHL was often held in personal name for the BADR advantage. Without that, incorporation becomes more attractive — particularly for higher-rate taxpayers with mortgaged FHLs. The same incorporation analysis as for standard BTL applies (see Section 7).

### **Option 4: Sell**

For some landlords with low-yielding FHLs, the loss of BADR is the trigger to exit. CGT at 24% is materially less attractive than the 10% rate that would have applied pre-April 2025, so timing the sale carefully (and offsetting losses where possible) matters.

## Option 5: Convert to a genuine trading business

Some hospitality operations are bona fide trades — providing significant additional services beyond accommodation (e.g., daily housekeeping, prepared meals, concierge). These can still be treated as trades for tax purposes outside the FHL regime — but the bar is high. HMRC's view (IHTM25278) was always that most FHLs would not qualify for trading treatment for IHT BPR purposes; the same scepticism applies to income tax trading status.

### Practical tip

If you're considering claiming trading status post-FHL, document the level of services provided in detail. The leading authority is *HMRC v Lockyer* (and similar cases). Without genuine 'serviced accommodation' beyond what holiday letting normally involves, the claim is likely to fail.

# 05

## CHAPTER FIVE

# Capital Gains Tax on residential property

CGT on residential property has tightened materially over the past few years. Disposal planning matters more than ever — and the 60-day reporting deadline is unforgiving.

## 5. Capital Gains Tax on residential property

CGT on residential property has tightened substantially over the past few years. The combination of slashed annual exemption, mandatory 60-day reporting, and elevated rates means that disposal planning matters more than ever.

### The key 2026/27 numbers

| Item                                            | 2026/27 position                      |
|-------------------------------------------------|---------------------------------------|
| Annual exempt amount (individual)               | £3,000 (down from £12,300 in 2022/23) |
| Annual exempt amount (most trusts)              | £1,500                                |
| CGT rate — basic rate band                      | 18% (residential property)            |
| CGT rate — higher rate band                     | 24% (residential property)            |
| Reporting deadline                              | 60 days from completion               |
| Companies — corporation tax on chargeable gains | 25% (or 19% small profits rate)       |

### How CGT is calculated on residential property

1. Sale proceeds (less selling costs — agent fees, legal fees)
2. Less: original purchase cost (less buying costs already deducted)
3. Less: capital improvements (extensions, conversions, etc — not repairs)
4. Less: any relief (Private Residence Relief, Lettings Relief if applicable)
5. Less: annual exempt amount (£3,000 if not used elsewhere)
6. Apply rate — 18% (basic band) or 24% (higher band) depending on overall income

### Worked example

Mike bought a buy-to-let in 2010 for £180,000 with £4,500 SDLT and £1,500 legal fees. He's selling in 2026/27 for £390,000 with agent fees of £5,500 and legal fees of £1,200. He spent £18,000 on a loft conversion in 2018. He's a higher-rate taxpayer using his full annual exempt amount.

| Calculation step                             | Amount         |
|----------------------------------------------|----------------|
| Sale proceeds                                | £390,000       |
| Less: selling costs (£5,500 + £1,200)        | (£6,700)       |
| Net proceeds                                 | £383,300       |
| Original cost                                | £180,000       |
| Plus: original buying costs                  | £6,000         |
| Plus: capital improvements (loft conversion) | £18,000        |
| Total base cost                              | £204,000       |
| Chargeable gain before AEA                   | £179,300       |
| Less: annual exempt amount                   | (£3,000)       |
| Taxable gain                                 | £176,300       |
| <b>CGT at 24%</b>                            | <b>£42,312</b> |

## The 60-day reporting rule

Since 6 April 2020, UK residents disposing of UK residential property have had to report and pay CGT within 60 days of completion (extended from the original 30-day window). This is via the dedicated 'CGT on UK property' service on GOV.UK — separate from the annual Self Assessment return.

### ⚠ Watch out

Late filing penalties start at £100 per return, escalating to £300 + 5% of unpaid tax for delays beyond 6 months. The estimate paid within 60 days is then reconciled in the annual SA return — if your final tax position is lower, you can reclaim the overpayment.

## Private Residence Relief and Lettings Relief

If a property has been your main home at any point during ownership, you may be entitled to Private Residence Relief (PRR) for the period you lived there, plus the final 9 months automatically.

Lettings Relief was significantly restricted from April 2020. It now only applies where the owner shared the property with the tenant at the time of letting. The pre-2020 generous Lettings Relief (up to £40,000) is no longer available for most BTL landlords.

## Strategies to manage CGT exposure

### Use the annual exempt amount

£3,000 isn't much, but two spouses each have one. Transferring half of the property to a spouse before sale (no CGT on inter-spousal transfers) can double the AEA available.

### Spread disposals across tax years

If selling multiple properties, completion timing across two tax years uses two AEAs and may keep the total gain in lower CGT bands.

### Crystallise losses

Losses on other capital assets (shares, other property) can be set against gains. Identify available losses before disposing.

### Consider basic-rate band capacity

If your taxable income is below the higher rate threshold, the unused basic rate band is available for the gain at 18%, not 24%. Gifting to a basic-rate spouse can therefore reduce CGT — but only if the underlying ownership has genuinely changed (Form 17 may be required).

### Time the disposal

If you're approaching retirement and your income will drop, deferring a sale to a year when your other income is lower keeps more of the gain in the 18% band.

#### Practical tip

If you're going to sell in the next 12 months, do the CGT calculation NOW. The 60-day window is short — having a calculated estimate ready means you can pay on time and avoid penalties.

# 06

## CHAPTER SIX

# Stamp Duty Land Tax for landlords

Buying additional residential property is more expensive than at any point since SDLT was introduced. SDLT now needs to be modelled carefully on every acquisition.

## 6. Stamp Duty Land Tax for landlords

Buying additional residential property in 2026/27 is more expensive than at any point since SDLT was introduced. The combination of the increased surcharge, the reverted nil-rate band, and the abolition of MDR means landlords need to model SDLT carefully on every acquisition.

### The 2026/27 rates for additional dwellings

For purchases of additional residential property in England and Northern Ireland (Scotland uses LBTT, Wales uses LTT), the rates are:

| Portion of property value | Standard rate | Additional dwellings rate |
|---------------------------|---------------|---------------------------|
| Up to £125,000            | 0%            | 5%                        |
| £125,001 – £250,000       | 2%            | 7%                        |
| £250,001 – £925,000       | 5%            | 10%                       |
| £925,001 – £1,500,000     | 10%           | 15%                       |
| Over £1,500,000           | 12%           | 17%                       |

Non-UK residents pay an additional 2% surcharge on top — so a non-resident landlord buying a £400,000 BTL pays the additional dwellings rate plus the non-resident surcharge.

### Worked SDLT examples

#### £200,000 BTL purchase by a UK resident landlord

| Band                 | Calculation                  | SDLT           |
|----------------------|------------------------------|----------------|
| First £125,000 at 5% | $£125,000 \times 5\%$        | £6,250         |
| Next £75,000 at 7%   | $£75,000 \times 7\%$         | £5,250         |
| <b>TOTAL SDLT</b>    | <b>Effective rate: 5.75%</b> | <b>£11,500</b> |

## £500,000 BTL purchase by a UK resident landlord

| Band                 | Calculation                 | SDLT           |
|----------------------|-----------------------------|----------------|
| First £125,000 at 5% | $£125,000 \times 5\%$       | £6,250         |
| £125,000 at 7%       | $£125,000 \times 7\%$       | £8,750         |
| £250,000 at 10%      | $£250,000 \times 10\%$      | £25,000        |
| <b>TOTAL SDLT</b>    | <b>Effective rate: 8.0%</b> | <b>£40,000</b> |

## The corporate rate — non-natural persons

Where a residential property over £500,000 is acquired by a 'non-natural person' (typically a corporate entity, partnership with a corporate member, or collective investment scheme) and isn't being acquired for a qualifying business purpose, a flat 17% rate applies (increased from 15% on 31 October 2024).

Qualifying purposes that escape the 17% rate include: bona fide property rental businesses (the most common exception for landlords), property development businesses, properties used by employees, and others. The exemption is available — but the company must satisfy HMRC that the property is genuinely held for one of these purposes.

### Watch out

If you've held property in a company for over 3 years and the genuine business use ends (e.g., you stop letting it and start using it personally), the relief can be clawed back. This is the Annual Tax on Enveloped Dwellings (ATED) regime which sits alongside SDLT.

## MDR abolition — what this means in practice

Multiple Dwellings Relief was abolished from 1 June 2024. It used to allow buyers of multiple dwellings in a single transaction to pay SDLT on the AVERAGE price per dwelling rather than the total. This produced significant savings for portfolio purchases and houses with granny annexes.

### Practical consequence

A purchase of two flats for £600,000 total (£300,000 each) now incurs SDLT calculated on the £600,000 figure, not on  $£300,000 \times 2$ . For multi-property deals, the SDLT increase can be very substantial — sometimes double or more.

## The 6+ properties exception

One important relief still exists: where SIX or more residential dwellings are purchased in a single transaction, the buyer can elect to use the non-residential SDLT rates instead. The top non-residential rate is 5% versus the top residential rate of 12% (or 17% with surcharge). This is the route most portfolio investors now use.

## ATED — Annual Tax on Enveloped Dwellings

If you hold residential property worth over £500,000 in a company, you may be subject to ATED — an annual charge on top of SDLT. Genuine rental businesses are exempt, but the exemption must be claimed annually via the ATED return, due by 30 April each year for properties owned at 1 April.

ATED charges (2025/26 illustrative figures, 2026/27 to be confirmed) range from around £4,400 for properties valued £500,001 to £1m, up to £287,500 for properties over £20m.

## Practical SDLT planning points

- Always model SDLT before agreeing a purchase price — particularly for properties around band thresholds (£250k, £925k)
- Investigate non-residential treatment for mixed-use properties (with shops, offices, or land) — the 5% top rate applies
- Time purchases to use the unused part of any spouse's nil-rate band where joint purchasing
- Refunds are available if you sell your previous main home within 36 months of buying a replacement (must be claimed within 12 months of disposal)
- Companies must consider ATED before structuring a residential acquisition through a corporate vehicle

### Practical tip

If you're acquiring a second home or BTL, the SDLT bill is often equivalent to one to two years' rental income. Treat it as a true acquisition cost, not an afterthought — it materially affects yield calculations.

# 07

## CHAPTER SEVEN

# Should you incorporate? A serious analysis

The most-discussed landlord question of the past five years. This section gives you the honest analysis, not the cheerleading.

## 7. Should you incorporate? A serious analysis

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Incorporation — transferring a portfolio held in personal name into a limited company — has been the most-discussed landlord question of the past five years. Section 24 made companies look much more attractive (full mortgage interest deduction), and corporation tax rates remain meaningfully lower than higher-rate income tax.

But incorporation has real costs and is irreversible without further tax events. This section gives you the honest analysis, not the cheerleading.

### The benefits

- **Full mortgage interest deduction.** Companies aren't subject to Section 24. Interest is deducted from rental profit before corporation tax.
- **Lower marginal tax rate on retained profits.** Corporation tax is 19% on profits up to £50,000 and 25% above £250,000 (with marginal relief in between). Higher-rate income tax is 40%, additional rate 45%.
- **Reinvestment efficiency.** Profits retained in the company for further property purchases or capital improvements are taxed only at corporation tax rates. To do the same in personal name, you'd pay 40% income tax first.
- **Estate planning flexibility.** Shares can be gifted progressively to children using the annual exemption (£3,000) and seven-year IHT taper. Possibly more flexible than gifting individual properties.
- **Limited liability.** Less commercially relevant than it sounds — most BTL mortgage lenders require personal guarantees. But the principle still applies.

### The costs

- **SDLT on transfer.** Transferring property from personal to company name is a 'transaction' for SDLT — even if no cash changes hands, market value applies. The 5% additional dwellings surcharge applies. On a £400,000 portfolio, that's £30,000+ of SDLT just to incorporate.
- **CGT on transfer (without relief).** The transfer is a deemed disposal at market value. Without Incorporation Relief or Hold-over Relief, the entire built-up gain becomes immediately chargeable.

- **Refinancing costs.** Most personal-name BTL mortgages can't be transferred to a company. New mortgages need to be arranged — often at higher rates and with arrangement fees of £2,000–£5,000 per property.
- **Higher BTL mortgage rates.** Limited company BTL rates are typically 0.5–1% higher than personal rates. Over a 25-year mortgage, that's substantial.
- **Higher annual costs.** Statutory accounts, corporation tax return, confirmation statement, accountancy fees — typically £1,500–£3,000/year for a small property company.
- **Double taxation on extraction.** Profits taxed at corporation tax (19–25%) AND then again as dividend income (8.75% / 33.75% / 39.35%) when extracted. The headline rate gap is much smaller after extraction.

## Section 162 Incorporation Relief

This is the relief that makes incorporation viable for many landlords — it allows the built-up CGT to be deferred (rolled into the share base cost of the new company) rather than triggered immediately.

### Conditions

- The transfer must be of a whole business, not just selected properties
- The business transferred must be genuinely a business (the 'badges of trade' tests apply — passive long-term lets often don't qualify; active management of multiple properties usually does)
- Consideration must be wholly in shares of the receiving company (not in cash or loan accounts)
- From 6 April 2026, the relief **MUST** be actively claimed in the Self Assessment return for the year of transfer

#### Watch out

HMRC has been aggressive in challenging Incorporation Relief claims for passive landlord portfolios. The Ramsay v HMRC case (2013) set a high bar — significant time spent on management, multiple properties, evidence of business activity. Small portfolios with managed agents and minimal owner involvement may not qualify.

## The cost-benefit framework

Incorporation typically makes sense when:

- You're a higher or additional rate taxpayer with multiple mortgaged properties

- You intend to retain profits and reinvest (rather than draw all profits as income)
- Your portfolio meets the 'business' test for Section 162 relief
- You have a 5+ year horizon to recover the upfront SDLT cost
- You're planning estate efficiency through share gifting

It typically does NOT make sense when:

- You're a basic-rate taxpayer (Section 24 doesn't bite, no immediate gain)
- You only have 1-2 properties (admin overhead outweighs benefit)
- You need to draw all profits as income (double taxation eliminates the saving)
- Your portfolio is unencumbered (no mortgage interest to deduct)
- You're approaching retirement (limited time to recover transfer costs)

## Beneficial interest companies — the 'partial' route

Some advisers promote 'beneficial interest only' transfers where the legal title stays in personal name (avoiding SDLT and refinancing) but the beneficial ownership transfers to the company. HMRC have been clear that this approach faces significant practical and legal issues — it's not a clean way to access company tax treatment without paying for it. Treat with extreme caution.

## The practical decision

If you're seriously considering incorporation, get a personalised analysis. The maths varies enormously based on portfolio size, current LTV, your marginal tax rate, future plans, and your spouse's tax position. A typical analysis costs £750–£2,500 and considers:

- Current vs future tax cash flow over 10 years
- SDLT on transfer (modelled exactly)
- CGT exposure if Incorporation Relief doesn't apply
- Refinancing cost at current rates
- Exit options (sale of company, sale of properties, share gifting)
- Stress test against tax rate changes (corporation tax has moved 19% to 25% within 5 years; could move again)



### Practical tip

Before you commit to incorporation, model the post-extraction tax rate, not just the corporation tax rate. If you need £40,000/year of income from the portfolio and you're paying both CT and dividend tax, the saving versus personal ownership may be minimal.

# 08

## CHAPTER EIGHT

# MTD for Income Tax — April 2026 onwards

The biggest operational change to landlord tax compliance since Self Assessment was introduced. Here's what to do, and when.

## 8. MTD for Income Tax — April 2026 onwards

Making Tax Digital for Income Tax Self Assessment (MTD ITSA) goes live on 6 April 2026 for the first wave of landlords and sole traders. If your gross rental income (combined with self-employment, where applicable) exceeds £50,000, you must comply from year one.

This is the biggest operational change to landlord tax compliance since Self Assessment was introduced in 1996/97.

### Who is affected — and when

| From tax year     | Threshold (gross income) | Who's caught                                                   |
|-------------------|--------------------------|----------------------------------------------------------------|
| 2026/27           | £50,000+                 | Landlords + sole traders with combined gross income above £50k |
| 2027/28           | £30,000+                 | Threshold drops — many more landlords come into scope          |
| 2028/29 (planned) | £20,000+                 | Final tier — likely captures most landlords                    |
| Partnerships      | Deferred                 | MTD for partnerships postponed beyond original timeline        |

'Gross income' means the total income before deducting expenses — so a property with £55,000 of rental income and £40,000 of expenses (including mortgage interest) is caught from April 2026, even though the taxable profit is only £15,000.

### What you'll have to do under MTD ITSA

1. Use HMRC-compatible accounting software (Excel + bridging software is acceptable for now)
2. Keep digital records of all income and expenses as they happen — not just annually at year-end
3. Submit four quarterly updates per year to HMRC, covering each tax quarter (deadlines fall 1 month after each quarter ends)

4. Submit a Final Declaration after the tax year, replacing the annual SA tax return — by 31 January following the tax year end

Quarterly deadlines align with tax quarters: 5 August, 5 November, 5 February, and 5 May. Each quarterly update is a summary of income and expenses for that quarter — not a full tax calculation.

## Quarterly updates — what they actually require

A quarterly update is summarised information from your digital records. For property income, it's typically: total rental income received in the quarter, and total expenses by category (repairs, insurance, agent fees, etc). It is NOT:

- A full tax calculation
- A payment trigger (no tax becomes payable based on the quarterly update)
- A demand for receipt-by-receipt detail (that's still kept in your software, not submitted)

Importantly, mortgage interest does NOT need to be submitted in quarterly updates for residential property — it's adjusted for at the year-end Final Declaration only. This is because of the Section 24 mechanics.

## Penalties under MTD

HMRC has introduced a points-based penalty system. Each missed quarterly submission gets one penalty point. Once you reach the threshold (4 points for quarterly filers), a £200 fixed penalty applies. Subsequent missed submissions each trigger another £200.

Late payment penalties are separate — 2% of unpaid tax after 15 days, an additional 2% after 30 days, then 4% per annum after that. All in addition to interest.

## What software is approved

HMRC publishes a regularly updated list of compatible software. As of writing, the major options for landlords include Xero, FreeAgent, QuickBooks, Sage, FreshBooks, Hammock (specifically for landlords), Landlord Studio, and various others. Bridging software (Excel + a connector) like 1-Tap and TaxCalc is also acceptable.

Software costs vary widely — from around £10/month for a basic landlord-specific tool to £40+/month for full Xero or QuickBooks subscriptions.

# Practical preparation timeline

## Now (May 2026)

- Confirm whether you're caught by the £50,000 threshold from April 2026
- Choose and start using compatible software, even if not yet mandated — building habits now is easier than under deadline pressure
- Set up dedicated bank accounts for property income
- Talk to your accountant about how MTD will change their service and fees

## By 31 March 2026

- Software fully implemented and digitally linked to bank feeds
- Opening positions reconciled (current year's records up to date as a starting point)
- Internal process documented — who's responsible for what, on what cadence

## From 6 April 2026

- Start digital record keeping in real time
- First quarterly update due by 5 August 2026 (covering 6 April – 5 July 2026)

### Watch out

Even if your gross income is below £50,000 for 2026/27, plan ahead. The £30,000 threshold from April 2027 will catch a substantial proportion of buy-to-let landlords. Building MTD-compatible habits a year early avoids a panicked migration.

### Practical tip

If you have multiple properties, you'll need to track income and expenses by property. Software that supports per-property reporting (Hammock, Landlord Studio, or Xero with tracking categories) saves significant time at year-end.

# 09

## CHAPTER NINE

# Joint ownership and income shifting

One of the simplest and most effective tax planning tools — particularly when one spouse is in a lower tax band than the other.

## 9. Joint ownership and income shifting

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For couples who are married or in a civil partnership, joint ownership of property can be one of the simplest and most effective tax planning tools — particularly when one spouse is in a lower tax band than the other.

### The default position

HMRC's default rule for married couples and civil partners is that rental income from jointly-owned property is split 50:50, regardless of the actual underlying ownership shares. This is the 'jointly owned' rule in ITA 2007, s.836.

So if Property A is owned 90% by Partner X and 10% by Partner Y (perhaps because X put up most of the deposit), the rental income is still taxed 50:50 — unless the couple takes positive action to override that.

### Form 17 — overriding the default

To have rental income split in proportion to actual beneficial ownership (rather than 50:50), the couple must submit Form 17 to HMRC. This is a Declaration of Beneficial Interests in Joint Property and Income.

#### Conditions for Form 17

- Property must be owned in unequal shares (not 50:50) — Form 17 cannot create a different split where ownership is genuinely equal
- Both partners must sign the form
- Must be supported by evidence (typically a Declaration of Trust or solicitor's letter)
- Must be received by HMRC within 60 days of being signed
- Once filed, applies from the date of the declaration onwards (cannot be backdated)
- Cannot be revoked — only superseded by a new declaration when the underlying ownership changes

### Worked example

James (additional rate, 45%) and Sarah (basic rate, 20%) own a buy-to-let producing £24,000 net rental profit. Currently held jointly with default 50:50 split:

| Position                | James (45%)                                  | Sarah (20%)                                  | Total tax       |
|-------------------------|----------------------------------------------|----------------------------------------------|-----------------|
| Default 50:50 split     | $\pounds 12,000 \times 45\% = \pounds 5,400$ | $\pounds 12,000 \times 20\% = \pounds 2,400$ | $\pounds 7,800$ |
| With Form 17 — 1% / 99% | $\pounds 240 \times 45\% = \pounds 108$      | $\pounds 23,760 \times 20\% = \pounds 4,752$ | $\pounds 4,860$ |
| <b>Annual saving</b>    | <b><math>\pounds 2,940</math></b>            |                                              |                 |

Note: this requires the actual beneficial ownership to be 1%/99% — a Declaration of Trust signed and supported by evidence. Form 17 doesn't create the underlying ownership split; it just tells HMRC about it.

## Considerations and limitations

- CGT on disposal will follow the underlying ownership split — so a 99% owner faces 99% of the gain
- Inheritance Tax planning may be affected — restructuring beneficial ownership changes the value in each estate
- Mortgage lenders may have a view if the legal ownership doesn't match the registered borrower position
- If the lower-earning spouse becomes a higher-rate taxpayer (e.g., career progression, inheritance), the savings reverse — the structure may then work against you
- After 5 April 2025, FHL Form 17 declarations have a tighter deadline window — see Section 4

## Joint ownership for unmarried couples

For unmarried couples (or co-investors), the 50:50 default doesn't apply. Income is taxed on the actual beneficial ownership — which means the underlying split can be agreed and varied without Form 17.

### Watch out

Restructuring beneficial ownership is a CGT event for unmarried couples. Married/civil-partner transfers are CGT-neutral (no chargeable gain on transfers between spouses). For unmarried couples, transferring property shares triggers CGT at market value.

## Trusts as an alternative

Holding property in a trust (typically a discretionary trust) can provide flexibility for income to be allocated to lower-rate beneficiaries — adult children, for example. Trusts have their own tax regime that's often unfavourable, however, and SDLT and CGT entry costs can be material. They're worth considering for substantial estates with succession in mind, but rarely justified for a single BTL or small portfolio.

### **Practical tip**

Form 17 is most powerful when one spouse is significantly under the higher-rate threshold. For couples both in the higher band, it has no income tax effect — but may still matter for CGT planning on disposal.

# 10

## CHAPTER TEN

# Inheritance Tax for landlords

For landlords with multi-property portfolios, IHT exposure is often the largest single tax issue facing the family. Plan now.

# 10. Inheritance Tax for landlords

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UK residential property is fully chargeable to Inheritance Tax in the estate of the owner on death. Unlike farms or trading businesses, residential lettings do not generally qualify for Business Property Relief (BPR). For landlords with multi-property portfolios, the IHT exposure is often the largest single tax issue facing the family.

## The basic IHT framework

- Nil-rate band: £325,000 per person (frozen until at least April 2030)
- Residence nil-rate band: up to £175,000 per person, taper starts at £2m estates
- IHT rate: 40% on assets above the nil-rate bands
- Spouse exemption: 100% of any value transferred to a UK-domiciled spouse is exempt
- Annual exemption: £3,000 per donor per tax year for lifetime gifts
- Seven-year rule: lifetime gifts become fully outside the estate after 7 years, with taper relief from year 3

## Why landlords often face large IHT bills

Two structural factors create disproportionate IHT exposure for landlords:

1. Property values have grown substantially over the past 25 years, often outpacing inflation and wage growth
2. Residential lettings are 'investments' — they don't qualify for BPR like trading businesses do

A landlord with a 5-property portfolio worth £2.5m and the family home worth £700,000 has total estate value of £3.2m. Assuming both nil-rate bands are available (married, surviving spouse, RNRB applies), the IHT calculation is:

| Item                                             | Amount                           |
|--------------------------------------------------|----------------------------------|
| Total estate                                     | £3,200,000                       |
| Nil-rate band (×2 — surviving spouse use)        | (£650,000)                       |
| Residence nil-rate band — tapered (estate > £2m) | Phased reduction                 |
| RNRB tapered amount                              | (£0 — fully tapered above £2.7m) |
| Net taxable                                      | £2,550,000                       |
| <b>IHT at 40%</b>                                | <b>£1,020,000</b>                |

That's a million-pound bill that has to be paid within 6 months of death — typically requiring property sales or loans against the estate.

## Business Property Relief — the £1m cap from April 2026

BPR has historically given 100% relief from IHT for trading businesses. From 6 April 2026, this is being capped — the first £1m of qualifying business assets remains at 100% relief, but anything above that is restricted to 50%.

For most landlords this isn't directly relevant — residential letting doesn't qualify for BPR in HMRC's view. But it matters for landlords with substantial Furnished Holiday Letting historical positions, those with genuinely 'serviced accommodation' trading businesses, or those with mixed estates including trading companies.

## Lifetime gifting — the seven-year rule

Gifts made more than 7 years before death are completely outside the estate. Gifts within 3 years of death are taxed at the full 40%. Between years 3 and 7, taper relief reduces the rate as follows:

| Years between gift and death | Effective IHT rate |
|------------------------------|--------------------|
| Less than 3 years            | 40%                |
| 3 to 4 years                 | 32%                |
| 4 to 5 years                 | 24%                |
| 5 to 6 years                 | 16%                |
| 6 to 7 years                 | 8%                 |
| More than 7 years            | 0%                 |

Note: taper relief reduces the IHT on the GIFT itself — but the gift still uses up the nil-rate band first. So for smaller estates, taper may have less impact than expected.

## Practical IHT planning for landlords

### Use the annual exemption

£3,000 per donor per year. A married couple can therefore gift £6,000/year IHT-free, plus any unused annual exemption from the previous year (one year carry-forward). Over 20 years, that's £120,000+ removed from the estate immediately.

### Gift property shares progressively

Transferring small ownership shares of a BTL property to adult children annually can use the annual exemption efficiently. Beneficial ownership can be tracked via a Declaration of Trust. CGT applies to the gift (market value), so plan around the £3,000 AEA.

### Consider holding property in a company for share gifting

Shares in a property company can be gifted (subject to CGT rules and Stamp Duty for shares — currently 0.5%). If shares progressively transfer to children using the annual exemption and seven-year rule, the underlying property value moves out of the parent's estate without disturbing the legal title or mortgages.

### Whole-of-life insurance

Where IHT exposure is large and estate planning options are limited, a whole-of-life insurance policy written in trust can provide cash to pay the IHT bill on death — without itself being part of the estate. Premiums are typically substantial; suitable for some scenarios but not a 'planning trick'.

## Spouse use of nil-rate bands

Ensure both spouses fully use their nil-rate bands. A common error is leaving everything to the surviving spouse — using the spouse exemption — only for the entire estate to face IHT on the second death without either NRB used. Splitting bequests, or using a nil-rate band discretionary trust on first death, can preserve both NRBs.

### **Watch out**

Pre-Owned Asset Tax (POAT) and 'Gifts with Reservation' rules can undo gifts where the donor continues to benefit from the gifted property (e.g., still living in it rent-free, or still receiving the rental income). Get specific advice before gifting any property you continue to use or benefit from.

### **Practical tip**

IHT planning is most effective with the longest possible time horizon. If you're 60+ with a substantial portfolio, start now. Waiting until 75+ leaves limited room for the seven-year rule to bite.

# 11

## CHAPTER ELEVEN

# The Non-Resident Landlord scheme

If you live outside the UK and own UK rental property, the NRL scheme governs how your tax is collected.

# 11. The Non-Resident Landlord scheme

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If you live outside the UK for more than 6 months in any tax year and own UK rental property, you are a Non-Resident Landlord (NRL) for tax purposes. The NRL scheme was introduced in 1996 to ensure tax is collected on UK rental income from non-residents.

## How the scheme works

The default position: letting agents and tenants paying rent to a non-resident landlord must withhold basic-rate tax (20%) before passing the rent on. The agent/tenant accounts for this withholding to HMRC quarterly. The landlord then reclaims any overpayment via Self Assessment after year-end.

## NRL1 — applying for gross payment

Most non-resident landlords prefer to receive rent gross (without withholding), then settle their tax via the annual SA return. To do this, you submit Form NRL1 to HMRC. If approved, you receive a unique reference number that lets agents/tenants pay rent gross.

### Conditions for gross payment

- You must have a UK tax obligation that's expected to be met (i.e., file SA returns and pay any tax due)
- You must have no outstanding UK tax matters
- HMRC reserves the right to revoke approval if conditions aren't met

The NRL1 application is free and processing typically takes 4-8 weeks. Most applicants are approved if they have a clean tax record. Agents and tenants benefit too — once you have the NRL approval, they no longer need to operate the withholding.

## Self Assessment for non-resident landlords

Even with NRL gross payment approval, non-resident landlords must file an annual SA return reporting UK rental income. UK rental income is taxed at the same rates as for UK residents (basic 20%, higher 40%, additional 45%), with the personal allowance available depending on circumstances.

## Personal allowance for non-residents

Whether you get the £12,570 personal allowance depends on your nationality and residency. EEA nationals automatically qualify. Other nationals qualify if they meet specific criteria (e.g., are residents of countries with full tax treaty arrangements with the UK). Check current HMRC guidance — rules are complex post-Brexit.

## Capital Gains Tax for non-residents

Non-residents disposing of UK residential property are subject to CGT — at 18%/24% — using the same 60-day reporting requirement as UK residents. Specific provisions apply to the calculation:

- Default rebasing: gain calculated using the property's value at 6 April 2015 (or 6 April 2019 for non-residential UK property)
- Time apportionment: alternative method splitting the gain pre/post April 2015
- Straight-line: third option using actual cost
- Election can be made for whichever method gives the lowest gain

## Practical considerations for non-resident landlords

### Currency and remittance

Rent received in GBP usually stays in a UK bank account until the landlord decides to remit. Currency fluctuations between rental receipt and remittance can be material — but don't change the UK tax position (it's calculated in sterling).

### Use of letting agents

UK letting agents are very used to operating NRL withholding (or not, where NRL1 approval is in place). For overseas landlords, a UK letting agent removes most of the operational complexity.

### UK accountant / agent for SA

Most non-resident landlords use a UK accountant to file their annual SA return. Costs typically £350-£800 depending on complexity (one property simple; portfolios with allowable expenses, capital gains, joint ownership more complex).

### MTD ITSA for non-resident landlords

MTD ITSA applies to non-resident landlords on the same basis as UK residents. The £50,000 threshold from April 2026 (then £30k, £20k) applies to gross UK rental income. Many non-resident landlords will be caught immediately — and need UK-compatible MTD software access.

### **Watch out**

Non-resident landlords sometimes assume that 'living abroad' reduces UK tax. It doesn't — UK property income is fully taxable in the UK regardless of where the landlord lives. Double tax treaty relief may apply where the landlord's residence country also taxes the same income, but the UK has primary taxing rights.

### **Practical tip**

If you're moving abroad and intend to keep UK property, file Form NRL1 and notify HMRC of the change in residence well in advance. Last-minute applications often miss the start of the tax year and trigger withholding for the first quarter.

# 12

## CHAPTER TWELVE

# HMRC enquiry triggers — what attracts attention

Understanding what raises the risk score helps you prepare evidence proactively and avoid easily-avoidable triggers.

## 12. HMRC enquiry triggers — what attracts attention

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HMRC opens enquiries into landlord tax returns based on a combination of automated risk profiling and targeted campaigns. Understanding what raises the risk score helps you prepare evidence proactively and avoid easily-avoidable triggers.

### The automated risk model

HMRC's Connect system aggregates data from multiple sources: Land Registry transactions, council tax records, mortgage applications, bank account interest, social media, even Airbnb and Booking.com reporting. Returns are scored against expected patterns; outliers are reviewed.

### Common enquiry triggers

#### Property income inconsistencies

- Reported rental income materially below the typical market rent for the property's area and type
- Income reported in some years but not others, where Land Registry data shows continued ownership
- Income reported by one spouse where Land Registry shows joint ownership (without Form 17)
- Mismatch between letting agent records (HMRC can request these) and your declared income

#### Expense ratios that look unusual

- Repairs and maintenance well above average for property type and age (suggests improvements being claimed as repairs)
- Mortgage interest claimed in full (i.e., as deduction not 20% credit) — usually a software error or out-of-date filing
- Travel costs disproportionate to portfolio size or geography
- Use of home as office for property business (only justified for genuine portfolio management)

## Capital gains red flags

- Sale of a property that was let for years claimed as main residence (PRR claim)
- Disposals not reported within 60 days
- Capital gains not reported at all where Land Registry shows the disposal
- Overstated base costs (improvements claimed without supporting evidence)

## Lifestyle vs declared income

- HMRC's lifestyle questionnaire compares your declared income against estimated living costs for your area
- Visible wealth indicators (cars, holidays, additional property) inconsistent with declared income
- Significant cash deposits to bank accounts not explained by declared sources

## Specific HMRC campaigns

- **Let Property Campaign:** ongoing — encourages voluntary disclosure of unreported rental income. Reduced penalties for those who come forward.
- **Short-term lets (Airbnb, Booking.com):** platforms now report user income to HMRC. Significant focus on 2024-25 onwards.
- **Non-resident landlords:** mismatches between Land Registry data and SA filings.
- **Property developers:** HMRC actively targets landlords who flip properties — challenging whether income should be trading (income tax + NIC) rather than capital (CGT only).

## How to reduce enquiry risk

1. Keep contemporaneous records — receipts, bank statements, contracts. Don't rely on reconstructing later
2. Make sure declared rents match what you actually receive (and what your letting agent reports to HMRC)
3. Apply Section 24 correctly — mortgage interest as a 20% credit, not deduction
4. File Form 17 where applicable; ensure income split aligns with beneficial ownership
5. Document repairs vs improvements; keep before/after photos for substantial works
6. Report all capital gains within 60 days of completion
7. If you've been letting and not reporting income, use the Let Property Campaign — penalties are much lower than if HMRC opens an enquiry independently

## If HMRC does open an enquiry

First, don't panic. Most enquiries are routine and resolved without penalty if your records are reasonable. The key principles:

- Engage promptly — HMRC will escalate if ignored
- Respond within deadlines (typically 30 days for information requests)
- Be accurate but don't volunteer information beyond what's asked
- Consider professional representation, particularly for complex matters
- If errors are identified, voluntary correction reduces penalties significantly

### **Watch out**

Penalties for inaccuracy can be substantial: 0% to 30% of tax due for careless errors, 20% to 70% for deliberate, and 30% to 100% for deliberate and concealed. Suspended penalties may be available if you take steps to improve future compliance — usually negotiated through professional representation.

### **Practical tip**

Fee Protection Insurance (typically £150-£400/year for landlords) covers professional fees if HMRC opens an enquiry. Worth considering if you have a portfolio of more than 2-3 properties.



REFERENCE MATERIAL

# Appendices

Quick-reference tables and worked examples to support the main playbook content.

# Appendix A: SDLT calculation table for buy-to-let purchases

Effective rates of SDLT (including the 5% additional dwellings surcharge) for residential property purchases in England and Northern Ireland as a UK-resident additional buyer:

| Purchase price | Total SDLT | Effective rate |
|----------------|------------|----------------|
| £100,000       | £5,000     | 5.0%           |
| £150,000       | £8,000     | 5.3%           |
| £200,000       | £11,500    | 5.75%          |
| £250,000       | £15,000    | 6.0%           |
| £300,000       | £20,000    | 6.7%           |
| £400,000       | £30,000    | 7.5%           |
| £500,000       | £40,000    | 8.0%           |
| £600,000       | £50,000    | 8.3%           |
| £750,000       | £65,000    | 8.7%           |
| £1,000,000     | £90,000    | 9.0%           |
| £1,500,000     | £152,500   | 10.2%          |
| £2,000,000     | £237,500   | 11.9%          |
| £3,000,000     | £407,500   | 13.6%          |

Non-UK residents add 2% on top of all bands. Non-natural persons (corporates) buying residential property over £500,000 pay flat 17% unless qualifying for relief (e.g., genuine rental business).

## Appendix B: CGT worked examples

### Example 1 — Higher-rate landlord disposal

Bought 2010 for £160,000 + £4,000 buying costs. Sold 2026 for £340,000 less £6,000 selling costs. £15,000 capital improvements (extension, 2017). Higher rate taxpayer using full £3,000 AEA.

|                                     | Amount         |
|-------------------------------------|----------------|
| Net proceeds                        | £334,000       |
| Less base cost (£160k + £4k + £15k) | (£179,000)     |
| Chargeable gain                     | £155,000       |
| Less AEA                            | (£3,000)       |
| Taxable gain                        | £152,000       |
| <b>CGT at 24%</b>                   | <b>£36,480</b> |

### Example 2 — Joint owners, mixed tax rates

Same property as Example 1, but jointly owned 50:50 by James (additional rate) and Sarah (basic rate, with £15,000 of basic-rate band remaining after employment income).

Each owner gets £77,500 share of the chargeable gain (£155,000 ÷ 2). Each uses £3,000 AEA = £74,500 each taxable.

- James (additional rate): full £74,500 at 24% = £17,880
- Sarah (basic rate): £15,000 at 18% + £59,500 at 24% = £2,700 + £14,280 = £16,980
- Total CGT for the couple: £34,860 (vs £36,480 if held in James's name only — annual saving of £1,620 just from joint ownership use of two AEA's and Sarah's basic-rate band).

### Example 3 — Property with main residence period

Bought 2008 for £200,000. Lived in it for 5 years (2008-2013), then let for 12 years (2013-2025). Sold 2026 for £450,000. Total ownership period: 18 years (216 months).

- Total gain (ignoring costs for simplicity): £250,000

- PRR period: 5 years actual occupation + final 9 months automatically = 5 years 9 months = 69 months out of 216
- PRR proportion:  $69/216 = 31.94\%$
- PRR exempt: £79,861
- Chargeable gain: £170,139
- Less AEA: £167,139
- CGT at 24%: £40,113

## Appendix C: Incorporation cost-benefit model

This is a simplified illustration of the financial decision. Real cases need full personal modelling — but the structure shown here is the framework.

### Scenario: 4-property portfolio, higher-rate taxpayer

4 BTLs, total value £1.2m, total mortgage £750,000, total annual rent £72,000, total mortgage interest £30,000, total other expenses £14,000. Owner is a higher-rate taxpayer (£75,000 employment income).

#### Position 1: Continue in personal name

| Item                                         | Amount         |
|----------------------------------------------|----------------|
| Rental income                                | £72,000        |
| Less other expenses (not mortgage)           | (£14,000)      |
| Profit per HMRC (mortgage excluded)          | £58,000        |
| Income tax at 40%                            | £23,200        |
| Less 20% credit on £30,000 mortgage interest | (£6,000)       |
| Net annual tax                               | £17,200        |
| <b>NET CASH AFTER TAX</b>                    | <b>£10,800</b> |

## Position 2: Incorporate

Same income/expenses, now in a limited company:

| Item                                                       | Amount         |
|------------------------------------------------------------|----------------|
| Rental income                                              | £72,000        |
| Less other expenses + mortgage interest                    | (£44,000)      |
| Profit before tax                                          | £28,000        |
| Corporation tax at 19%                                     | £5,320         |
| Profit retained in company                                 | £22,680        |
| If extracted as dividend (basic rate band used elsewhere): |                |
| Dividend tax at 33.75% (higher rate)                       | £7,654         |
| <b>NET to owner if fully extracted</b>                     | <b>£15,026</b> |

## Annual saving vs upfront costs

- Annual saving (extracting all profit): £4,226
- Annual saving (retaining profit for reinvestment): £11,880 (deferred tax)
- Upfront SDLT on transfer: £1.2m × ~6.5% effective rate = ~£78,000
- CGT on transfer (without S162 relief): If accumulated gain is £200,000, at 24% = £48,000
- With S162 relief: deferred (rolled into share base cost)
- Refinancing fees: ~£10,000 across 4 properties
- Total upfront cost (with S162 relief): ~£88,000
- Payback period (extracting all profit): ~21 years
- Payback period (retaining profit): ~7 years

This is why incorporation is most attractive when you intend to retain profits for portfolio growth, not extract them as personal income.

# Appendix D: HMRC enquiry red-flag checklist

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Run through this checklist before filing each year's tax return. Each item below is a common HMRC enquiry trigger:

## Income

- Have I declared all rent received during the tax year (not just rent due)?
- Have I matched my income to my letting agent's records?
- If I use Airbnb / Booking.com, have I declared platform-reported income?
- Have I correctly applied the 50:50 default for joint ownership (or filed Form 17 to override)?

## Expenses

- Have I applied Section 24 correctly — mortgage interest as a 20% tax credit, NOT a deduction?
- Have I distinguished repairs (deductible) from improvements (capital)?
- Have I documented mileage with diary entries showing business purpose?
- Have I claimed only like-for-like replacements under RDIR (not upgrades)?
- Have I correctly apportioned costs across multiple properties?

## Capital gains

- Have I reported any disposals within 60 days of completion?
- Have I supported PRR claims with evidence of actual occupation?
- Have I documented all capital improvements that increase base cost?
- Have I considered loss carry-forward from previous years?

## Documentation kept (minimum 6 years)

- All property purchase documents (TR1, completion statement, SDLT5)
- All sale documents and CGT calculations
- All rental statements from letting agents

- All major repair / improvement invoices and photos
- All mortgage statements showing interest paid
- Form 17 declarations and Declarations of Trust (where applicable)
- NRL1 approvals (for non-resident landlords)
- Bank statements for property accounts

If any item above is uncertain or missing, address it BEFORE filing — corrections after filing carry higher penalties than getting it right first time.

## About The Tax Lead

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The Tax Lead is a specialist firm of Chartered Certified Accountants and Chartered Tax Advisers based near Liverpool Street in the City of London. We work with UK property investors, landlords, owner-managed businesses, and internationally mobile clients.

### Our property tax services

- Annual rental income compliance and Self Assessment
- Section 24 impact analysis and restructuring advice
- Incorporation analysis (cost-benefit modelling, Section 162 relief, transfer execution)
- CGT planning for property disposals (60-day reporting, PRR optimisation, Lettings Relief)
- MTD ITSA setup and ongoing compliance
- HMRC enquiry defence and Let Property Campaign disclosures
- IHT planning and estate restructuring for landlord families
- Non-Resident Landlord scheme advice and SA filing

### Credentials

- Regulated by the Association of Chartered Certified Accountants (ACCA)
- Tax body member: Chartered Institute of Taxation (CIOT)
- UAE FTA Registered Tax Agent (for UK→Dubai relocations)
- IFZA Strategic Partner (UAE company formation)

## Ready to talk?

Book a free 30-minute discovery call to discuss your portfolio's tax position. No obligation, no pressure — just an honest conversation about whether we can help.

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*If you've found this guide useful, the most helpful thing you can do is share it with a fellow landlord. Property tax planning is more important than ever — and Section 24, MTD ITSA and the FHL changes are catching landlords unprepared every week.*

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