Talking tax offers opportunities for brokers

As I write, the 31st January deadline for completing an Income Tax Self-Assessment (ITSA) tax return is nearly upon us. This self-assessment, covering the 2020/21 financial year, is the first in which mortgage interest tax relief changes are fully applied. Announced in the 2015 Summer Budget, and phased in from April 2017, the most recent and final changes mean that landlords can no longer deduct 25% of mortgage interest payments from their income with the remaining 75% given as a basic rate tax reduction. Instead, once the Income Tax on property profits and any other income sources has been assessed, Income Tax liability will be reduced by a basic rate 'tax reduction'.

The Government stated that the policy objective is to ensure that landlords with higher incomes no longer receive the most generous tax treatment, adding that all residential landlords with finance costs will be affected, but only some will pay more tax.

It is important to note that exempt from this are companies, so the changes present a great opportunity for advisors to discuss incorporation with their clients.

While individualised tax advice should only be provided by qualified professionals, brokers can provide information on incorporation to help the landlord decide whether it is something they would like an accountant to provide advice on. In this case, it could be informing clients how limited companies are charged Corporation Tax on profits, set at 19% for the 2021/22 financial year, instead being subject to personal Income Tax rates.

Another important change to tax that has come into effect, and so may impact landlords, is the extension from 30 to 60 days in which to report and pay capital gains tax (CGT) on the profits of additional properties.

Ahead of the Autumn budget, there was speculation that investors would face an increase in the amount of tax that they would be required to pay when reducing the size of their portfolios, but the extension was the only amendment to CGT made by the Chancellor.

With property prices forecasted to remain at the elevated levels we've seen of late, in addition to potentially costly and disruptive changes on the horizon in the form of new EPC requirements, it is possible that some investors will be tempted to offload at least some of their portfolios so grateful of any information on their tax liabilities.

Another area of tax where brokers have an opportunity to demonstrate their industry knowledge, provide a great customer service for their clients and show that they understand the issues faced by landlords is Making Tax Digital (MTD).

Like the changes to mortgage interest relief, MTD was announced by the Chancellor in a 2015 Budget and implemented using a phased approach. The Government says that MTD is the first phase of the move towards a modern, digital tax service that is more resilient and effective, boosting business productivity and better supporting taxpayers.

From their first VAT period starting on or after 1 April 2022, VAT registered businesses, including landlords, that are not already required to operate MTD under the requirements applying from 1 April 2019, will have to keep their records digitally (for VAT purposes only) and provide their VAT return information to HMRC through Making Tax Digital compatible software.

Acknowledging the challenges brought about by the Covid pandemic, the Government has agreed to push back the introduction of MTD ITSA by one year, meaning the new deadline is April 2024 instead of April 2023.

Despite this change, the Government says that an encouraging number of people have already adopted a digital approach to recording and paying their tax, although I'm sure that there is a substantial number of landlords who still do things as they have for many years so could benefit from any information brokers can provide.

Changes of this type can feel like more hoops to jump through, costing landlords time and money along the way, so brokers can be valuable sources of advice who clients turn to as they navigate their way through. Although the return on the invested time spent providing information on things such as tax is less obvious, this type of work can deliver real benefits to those that consider building relationships and generating repeat business as important to their own and their firm's success.