Property Agent Matters

OPENING THE DOORS TO FUTURE PROSPERITY

Winter 2015

At the time of writing it is early November and discussions in the office here have begun to move on to Christmas plans. By the time you receive this edition, George Osborne will have presented his Autumn Statement. Hopefully there will be a few seasonal gifts to lift our spirits before Christmas, although based on his attitude to property investors in the Summer Budget he is more likely to be playing Scrooge.

In any event, we hope you all have a very Merry Christmas and a Happy New Year!

IF YOU MANAGE CLIENT ACCOUNTS, ARE YOU AT RISK OF BEING FINED?

If you manage client monies as a lettings agent, and are registered with one of the following bodies (ARLA, NAEA, ICBA and NAVA) you might be interested to know of the regulatory changes being introduced next year.

The National Federation of Property Professionals (NFoPP) will begin issuing an automatic fine for late submissions of accountant's reports with effect from periods ending 31 August 2015 (due date 28 February 2016).

The membership of such bodies does give your clients reassurance that you are regulated and checked annually, but the possibility of being fined may lead to some member organisations letting their membership lapse.

We suggest that this is not a valid option, as the reputational benefits of being a compliant member should outweigh the cost, and as the compliance work can be completed almost immediately after your year end, the risk of missing the deadline is minimal, with the right support.

We have a dedicated and experienced team who can help with your compliance. The team have faced all manner of problems, from missing client account monies, to incomplete records, and all have been successfully resolved, by liaising with the NFoPP directly on behalf of our clients.

If you are thinking of registering your agency, or are already registered, with one of those bodies, please do call or email us to discuss the regulatory requirement, the benefits of being registered with a governing body, and the cost implications for your business.

ISSUES WITH YOUR CLIENT ACCOUNT?

Does your client bank account balance match the amount your system tells you is owed to your landlords? Congratulations! You have nothing to worry about (and are one of the few agencies without any issues in this area)!

If not, and regardless of whether you are registered with a governing body such as ARLA, you will probably have a niggling concern that everything is not as it should be.

Our property team has helped many of our clients investigate and successfully resolve these sorts of issues, and a little extra support from experienced professionals might just give you the reassurance you need that everything is ok.

Why not contact one of the team and see how Hazlewoods can help?

SUMMER BUDGET TAX CHANGES PROPERTY AGENTS SHOULD BE AWARE OF

There were two particular changes to the taxation of property income of which property agents (particularly letting agents) should take note.

WEAR AND TEAR ALLOWANCE

Firstly, relevant for both landlords with furnished and unfurnished properties, George Osborne announced the removal of the wear and tear allowance. This allowance has not been in the legislation for long; it was only enshrined in law from April 2013 after being in an extra statutory concession prior to that, so it was unexpected to see any change in the Summer Budget. Under the current rules landlords of furnished properties can only deduct 10% of their rental receipts to account for the depreciation and replacement of furnishings. This is now changing from April 2016.

The current system will be replaced with a new relief where landlords can only claim the costs that they actually incur when replacing furnishings in their property.

The ostensible upside is that the new relief will be available to all landlords, not just those with furnished properties. However, the landlords of unfurnished or partly furnished properties were already able to claim for the costs of furniture in their properties through the 'tools' provisions in the current legislation.

The overall result of the new rules is therefore that the landlords of furnished properties will no longer be able to claim the wear and tear allowance, the effect of which was to smooth rental profits over periods. Those who are spending large amounts on furniture may be better off in the longer term, but those who do not replace furniture that regularly will lose out.

You may wish to let your landlords know that the rules have changed.

TAX RELIEF ON FINANCE COSTS

The other property tax announcement to remind you of is more pertinent. The restriction of tax relief for interest and other finance costs on residential property lets is bad news for landlords, bad news for us (as the calculations required to calculate property income will be ever more complicated) and potentially bad news for letting agents as there is expected to be a drop in the buy to let market as a result.

In simple terms, tax relief for mortgage interest payments on residential properties will be restricted to the basic rate of tax. This means that landlords who are higher or additional rate tax payers will see their tax bills increasing, but this can also affect landlords who are currently basic rate taxpayers, who may see themselves pushed into higher rate. The Chancellor announced that this measure would be phased in gradually from April 2017. The cynical amongst us may suggest that this is to avoid the inevitable property selling spree and associated damage to house prices that would result from an immediate cliff edge style introduction. However, there is still expected to be an impact on the buy to let market as this system is introduced.

We won't bore you with the detailed mechanics of the restriction but broadly in 2017/18 higher/additional rate relief will only be available on 75% of a landlord's mortgage interest, with the remaining 25% attracting basic rate tax relief only. This proportion will increase by 25% each year until 2020/21 when 100% of a landlord's mortgage interest will only get basic rate tax relief.

It is incredibly important for landlords to understand the impact of the new rules and consider the options available to them. Selling up is merely one option. We can help by providing bespoke advice to ensure the impact is not as significant as it could be.

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