Year end requirements

Property purchased during year

If you purchase a property during the year, we will need a copy of the following:

- The completion statement (should be provided by the solicitor) – showing a breakdown of the property cost and all legal fees
- A copy of any mortgage agreement showing the repayment terms
- A copy of the mortgage statement showing interest incurred in the financial year
- A copy of costs involved in any bridging loans

Property disposed of during year

If you sell a property during the year, we will need a copy of the following:

- The completion statement (should be provided by the solicitor) – showing a breakdown of the property sales value and all legal fees
- A copy of the final mortgage statement showing interest incurred in the financial year and the final mortgage payment

General overview

This document is intended to explain how to post transactions related to property purchases and rentals and to help you with ensuring your bookkeeping is accurate.

In Xero, it is possible to have one account code for each type of expenditure (eg rent, rates, property cost) and to use tracking categories to be able to identify these costs by property – you can see more about tracking categories in Xero here.

However you are recording your expenditure you should ensure you have adequate records for all capital items to ensure you are able to identify allowable deductions when selling the property.

As a general rule of thumb, the more explanations you can provide against each item of expenditure, the better.

Definitions

Capital

Costs which should be posted to a balance sheet account.

Revenue

Costs which should be posted to a profit and loss code ie an expense (overhead) code.

Corporation tax = CT

Suggested accounts

As a general guideline we would recommend you create the following accounts in your bookkeeping system:

Capital accounts

Account name	Reason	Corporation tax treatment
Purchase costs	For purchase price, survey costs, legal fees	Not allowable for CT Added to cost on disposal
Pre-letting costs	Costs incurred to bring property into a state where it can be let	Not allowable for CT Potentially added to cost on disposal
Planning permission	Costs of applying for planning permission	Not allowable for CT Potentially added to cost on disposal
Structural alterations and changes	Direct and indirect costs of carrying out structural changes	Not allowable for CT Potentially added to cost on disposal
Improvements capital - not allowable	For larger improvement items	Not allowable for CT Potentially added to cost on disposal
Refurbishments capital	For larger refurbishment items	Not allowable for CT Potentially added to cost on disposal

Repairs – large expenditure	> £500 Eg roof repair	Allowable for CT as a revenue item – claimed as repairs in the tax computation (needs adjusting in the tax comp)
Replacements – large expenditure	> £500 Eg replacement fridge	Allowable for CT as a revenue item – claimed as replacements in the tax computation (needs adjusting in the tax comp)

Revenue accounts

Account name	Reason	Corporation tax treatment
Rental income		Taxable under CT
Property Purchase Finance Costs	For mortgage fees	Allowable for CT Claimed as finance costs in the accounts
Improvements revenue - not allowable	For smaller improvement items	Not allowable for CT Added to cost on disposal
Refurbishments revenue - allowable	For smaller refurbishment items (< £500)	Allowable for CT
Repairs – small expenditure	< £500 Eg mending a fridge	Allowable for CT
Replacements – small expenditure	< £500 Eg replacement fridge	Allowable for CT
Rates/Insurance/Mortgage interest/Annual inspections (eg for fire regulations)	Separate account for each	Allowed for CT
Licences	For HMO licences	Allowed for CT

Capital costs

Purchase costs

We would recommend setting up a separate balance sheet account for all the capital costs associated with purchasing the property.

Purchase price

This is a capital item and is not allowable for corporation tax.

This cost will be deducted from the sales proceeds when the property is sold.

Survey costs

Survey costs are not allowable for corporation tax. These should be posted to the balance sheet and identified separately per property.

This cost will be deducted from the sales proceeds when the property is sold.

Legal fees

Legal fees (and other incidental costs from the solicitor eg searches, AML, telegraphic transfers, land registry fees) related to the purchase are not allowable for corporation tax. These should be posted to the balance sheet and identified separately per property.

This cost will be deducted from the sales proceeds when the property is sold.

Stamp duty land tax

SDLT (and other incidental costs from the solicitor re SDLT eg submission costs) related to the purchase are not allowable for corporation tax. These should be posted to the balance sheet and identified separately per property.

This cost will be deducted from the sales proceeds when the property is sold.

Pre-letting costs

Costs incurred to bring property into a state where it can be let are not allowable for corporation tax.

However these costs can potentially be deducted from the sales proceeds when the property is sold - as long as the work has not been superseded by further improvements.

Planning permission

Applications for planning permission for structural changes (eg an extension, knocking down walls) are not allowable for CT but should be capitalised and costs can potentially be deducted when the property is sold - as long as the work has not been superseded by further improvements.

Any such costs should be posted to a separate balance sheet (capital) account code and clearly identified.

Structural alterations and changes

Any costs of structural changes (eg building the extension or knocking down the walls) are not allowable for CT but should be capitalised and costs can potentially be deducted when the property is sold - as long as the work has not been superseded by further improvements.

Costs associated with obtaining planning permission (eg building regs, drawing plans, surveys) and/or carrying out the structural changes (eg project management costs) should also be posted as capital.

Any such costs should be posted to a separate balance sheet (capital) account code and clearly identified.

Improvements – large expenditure

Larger improvements (ie upgrades rather than replacement of existing equipment) should be posted to capital and costs can potentially be deducted when the property is sold - as long as the work has not been superseded by further improvements.

Refurbishments – large expenditure

Larger refurbishments (ie upgrades rather than replacement of existing equipment) should be posted to capital and costs can potentially be deducted when the property is sold - as long as the work has not been superseded by further refurbishments.

Repairs – large expenditure

Repairs to a property or equipment in that property, are allowable as a revenue item for corporation tax.

However where these are significant expenditure items (a rule of thumb is > £500), these should be capitalised in the accounts, and we will amend the tax return to reflect these as revenue for tax purposes.

We would recommend that these are posted to a separate balance sheet account identifying these as large items of repairs expenditure – and identifying what the repair related to.

These costs are allowable as revenue items in the corporation tax computation and will need adjusting when the corporation tax is calculated.

Replacements – large expenditure

Replacements (eg fridges, carpets etc) are allowable as a revenue item for corporation tax.

However where these are significant expenditure items (a rule of thumb is > £500), these should be capitalised in the accounts, and we will amend the tax return to reflect these as revenue for tax purposes.

We would recommend that these are posted to a separate balance sheet account identifying these are large items of replacement expenditure and what the replacement was for.

These costs are allowable as revenue items in the corporation tax computation and will need adjusting when the corporation tax is calculated.

Revenue costs

Purchase costs

Mortgage fees

Fees for arranging the mortgage are a revenue expense and are allowable for corporation tax.

Improvements – small expenditure

Smaller improvements (ie updates rather than replacement of existing equipment) should be posted to revenue.

These costs are not allowable for corporation tax but can potentially be deducted when the property is sold - as long as the work has not been superseded by subsequent improvements.

Refurbishments – small expenditure

Smaller refurbishments such as updating the décor and replacing 'like with like', rather than improvements (e.g. upgrading the kitchen, bathroom) should be posted to revenue.

These costs are allowable for corporation tax.

Repairs – small expenditure

Smaller repairs to a property or equipment in that property (eg repair to a fridge – as a general rule of thumb < £500), will be allowable as a revenue item for corporation tax.

We would recommend that these are posted to a separate revenue account identifying clearly the expenditure.

Replacements – small expenditure

Smaller replacement items (eg fridges, carpets etc – as a general rule of thumb < £500) are allowable as a revenue item in both the accounts and for corporation tax.

We would recommend that these are posted to a separate revenue account identifying clearly the expenditure.

Rates/Insurance/Mortgage interest/Annual inspections (eg for fire regulations)

These are all revenue items which are allowable for corporation tax.

HMO licence

Costs to get an HMO licence (Home of multiple occupancy) are allowable for corporation tax and should be posted to an overhead code.

Disclaimer

This guide is designed to alert you to some of the major issues you should be considering. It is not a replacement for professional advice tailored to your precise needs and circumstances.

You should always seek the advice of a suitably qualified professional before acting on any of the advice.

And if you would like to speak to us about any of the issues covered in this guide, please feel free to give us a call or drop us an email.

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