



# Association of Accounting Technicians (AAT) response to the Office of Tax Simplification (OTS) Call for Evidence - Property Income Review

## 1. Executive summary

- 1.1. **Although AAT appreciates that having a single tax regime for all types of lettings would be simpler, given the often very different nature of a standard Buy-to-Let property business and a Furnished Holiday Let, it appears reasonable that different tax regimes should apply to each.**
- 1.2. **With regard to changes of ownership and varying the percentages of ownership, AAT suggests this is an area the OTS may wish to explore further with a view to providing greater certainty and simplification to reduce avoidance.**
- 1.3. **AAT recommends that rent-a-room tax relief, which has not been increased in over six years, should be increased from £7,500 per annum to £9,500 per annum effective from April 2023.**  
Thereafter it should increase annually in line with inflation (CPI).
- 1.4. **AAT has long campaigned for the second homes loophole to be closed and welcomes the fact it will be reduced from April 2023 with a new requirement to make a property available to let for at least 140 days and actually let for a minimum of 70 days.** However, AAT does not believe this change goes far enough and there should instead be a requirement for a property to be made available for a minimum of 210 days a year and for it to be actually let for 105 days. This would bring it into line with various tax reliefs and allowances that are available for Furnished Holiday Lettings.
- 1.5. **AAT favours breaking the link with the end of the tax year and requiring landlords to register within one month of letting activity commencing.**  
At present, as it is tied to the tax year, obligations to register and declare rental income to HMRC can be required anywhere between 6-18 months (or as much as 22 months if already registered for ITSA for other reasons and having a new liability).
- 1.6. **AAT opposes any plans for letting agents or platforms to become liable for the collection and remittance of rental income, whether on a voluntary or compulsory basis.**  
This is further explained at 3.67-3.77 below
- 1.7. **Given the wide variability of information provided by letting agents, platforms and holiday rental agency businesses, it would appear sensible to introduce some very basic minimum requirements for the provision of information to landlords.**  
This is clearly very distinct from the provision of advice but nevertheless could prove helpful in easing administrative burdens for landlords and improving compliance.
- 1.8. **AAT has repeatedly made clear that the £10,000 Making Tax Digital (MTD) threshold is inherently unfair and unjustifiable and should instead match the personal allowance (currently £12,570).**  
Otherwise non-taxpayers will have to register for MTD and provide quarterly updates despite having no tax liability.
- 1.9. **AAT strongly recommends that the Non-Resident Landlord Scheme be digitised at the earliest available opportunity.**  
Paper forms (used for quarterly returns and annual certificates) are not just outdated but unnecessarily costly and inefficient.
- 1.10. **For those who unwittingly or otherwise employ an unregulated accountant or tax adviser i.e. those who are not a member of a recognised professional body, who make up a third of the sector, the chances of receiving bad, inaccurate or misleading advice relating to the taxation of rental income is high.**  
This is easily addressed as explained at 3.49 below.

## 2. AAT response to the call for evidence

### Structural aspects

- 2.1. **Do any particular issues arise as a result of differences in the tax treatment of property income and income from other investments, such as OEICs, or quoted shares?**
- 2.2. In an ideal world tax on different types of income would be the same irrespective of its source.
- 2.3. The fact quoted shares have rather complicated tax rates (albeit lower) than for property income, at 8.75%, 33.75% and 39.35%, is not an argument for amending property income tax rates, rather there is a stronger case for matching the taxation of shares to that of property income given property income matches income tax rates (except where incorporated).
- 2.4. **Do any particular difficulties arise in relation to letting activities as a result of the different rules for the taxation of property income and trading income?**
- 2.5. Earlier this year AAT surveyed its licensed members and found that most believed their clients were unclear what trading was and when they started or stopped trading. 45% of AAT Licensed Accountants stated that most taxpayers are unclear what trading is, with a further 35% stating “*It depends, some are and some aren’t*”. Only a minority believe that most taxpayers are clear (20%).
- 2.6. This is less likely to relate to a distinction between a Buy-to-Let investment property and trading as a bed and breakfast establishment and instead much more likely to relate to accidental landlords i.e. where a single person moves in with their partner, keeps their original property and rents it out or where a new home is purchased, there are difficulties selling the original home and so it is temporarily rented out or where inheritance of a property has occurred.
- 2.7. It is sufficiently clear when a property is being used as a bed and breakfast business in comparison to renting a room out in a main residence but there may be more of a blurring and lack of understanding between furnished holiday lets and a straightforward property rental.
- 2.8. **What prompts landlords to incorporate their property rental businesses and to what extent are such decisions motivated by tax or non-tax reasons?**
- 2.9. For the vast majority of property rental businesses, incorporation is likely to be driven by tax considerations given the corporation tax liability is 19% compared to 20%, 40% or 45% if held in personal names.
- 2.10. Here it is worth cross referencing the total number of taxpayers in different income brackets<sup>1</sup> against declared property income<sup>2</sup>. This shows that 1,519,000 of the 26.4m basic rate taxpayers (5.75%) declared property income in 2019/20 compared to 560,000 of the 3,860,000 higher rate taxpayers (14.5%) and 106,000 of the 425,000 additional rate taxpayers (24.9%).
- 2.11. Interest relief is also available to offset against rental profits, involving family members can further reduce the tax burden and tax efficiency is enhanced by the timing of company dividends and if funds remain in the company.
- 2.12. Of course, tax decisions will vary depending on whether the property owner is a basic or higher rate taxpayer, whether or not a lower-earning spouse jointly owns (or could jointly own) the property and if the property is mortgaged or not but either way, financial (primarily tax) considerations are paramount.
- 2.13. These financial benefits or potential benefits need to be weighed against the likelihood of increased accountancy fees and potentially higher mortgage borrowing costs. Of course, there will be Stamp Duty Land Tax and Capital Gains Tax considerations to take into account, so tax reasons will again be at the forefront of decision making.
- 2.14. Similarly, Annual Tax on Enveloped Dwellings (ATED) for properties worth more than £500,000 will need to be considered – at an annual cost ranging between £3,800 (properties worth £500,000-£1m) and £244,750 (properties worth over £20m) this is likely to have a significant impact on incorporation decisions.

<sup>1</sup> National Statistics, Number of individual Income Tax payers, June 2021:

<https://www.gov.uk/government/statistics/number-of-individual-income-taxpayers-by-marginal-rate-gender-and-age>

<sup>2</sup> Hansard, July 2021:

<https://questions-statements.parliament.uk/written-questions/detail/2021-07-14/HL2005>

- 2.15. **What are the benefits and drawbacks of having a different regime for taxing property income and capital gains from Furnished Holiday Lettings?**
- 2.16. The tax benefits of a Furnished Holiday Let are varied but include:
- Interest being deductible in full when calculating profits
  - Plant and machinery capital allowances for furniture and fittings are allowed
  - A wide range of reliefs are available e.g. Business Asset Disposal Relief (formerly known as Entrepreneurs Relief) CGT relief, business asset rollover relief etc.
  - Profits can also be considered as earnings for pension purposes
- 2.17. It is important to note that tax considerations may not be the primary driver behind decisions to operate FHL instead of a standard rental. There are other non-tax benefits, for example in relation to occupation where FHL users have zero rights to remain in the property after their stay compared to the various protections and legal minefields that must be navigated by a landlord wishing to evict a tenant.
- 2.18. Although AAT appreciates that having a single tax regime for all types of lettings would be simpler, given the often very different nature of a standard Buy-to-Let property business and a FHL, it appears reasonable that different tax regimes should apply to each.
- 2.19. **To what extent do those owning property taxed under the Furnished Holiday Lettings regime use the property themselves?**
- 2.20. This is very difficult to accurately confirm but anecdotally both letting agents and AAT Licensed Accountants have suggested that most owners of Furnished Holiday Lettings will use the property at some stage during the year, whether just for a short break, to stay in whilst undertaking cleaning or minor refurbishments or in a small number of cases for more extended periods, especially where it is used as a holiday home for part of the year and rented out for the rest.
- 2.21. **Have you encountered any issues as a result of changes in a property's use or ownership, including varying the property ownership percentages?**
- 2.22. For those with a spouse or civil partner deriving income from jointly owned property they will be taxed on a 50:50 default percentage split, which is acceptable to most.
- 2.23. However, changing this, usually to reflect the favour the joint owner with the lowest taxable income confers, is relatively straightforward by completing HMRC's Form 17.
- 2.24. Variation of property ownership percentages will often take place when there is a tax advantage to doing so i.e. where one owner changes from being a basic rate taxpayer to a higher rate taxpayer but the other owner remains a basic rate taxpayer, there may be an increase in the basic rate taxpayer's percentage of ownership. Likewise, where a partner has retired or has a very low income, there are again likely to be tax advantages for varying the property ownership percentages.
- 2.25. This is especially common in relation to efforts to minimise Capital Gains Tax liability. For example, a recent case reported to AAT involved the owner of a rental property that was for sale, who had owned the property solely for more than 40 years, added his wife's name to the deeds and proceeded on the basis of joint ownership shortly before placing the property on the market. As both had previously lived at the property more than 30 years ago, this was particularly advantageous from a tax minimisation perspective as it enabled the CGT annual exempt allowance of £12,000 to be doubled to £24,000, lettings relief to be doubled from £40,000 to £80,000 and enhanced the Principal Residence Relief.
- 2.26. Had this been done any later, i.e. during the sale going through rather than prior to it going on the market, it is possible that HMRC would have viewed this as avoidance and taken appropriate action i.e. opening an investigation and ultimately pursuing a prosecution but there is no clearly defined timescale or description as to what constitutes avoidance in such circumstances, meaning that many landlords will legitimately seek to minimise their CGT liability in this manner. AAT suggests this is an area the OTS may wish to explore further with a view to providing greater certainty and simplification that will reduce avoidance.

## Operational aspects

- 2.27. **Are there any difficulties with the operation of reliefs and exemptions available to those with property income?**
- 2.28. Rent-a-room tax relief
- 2.29. An obvious problem with the Rent a room tax relief introduced 30 years ago, is that the £7,500 annual limit has not increased for more than six years (April 2016) had it simply increased in line with inflation it would today be worth £9,300.
- 2.30. To encourage greater numbers of room rentals, increasing the opportunities for employment mobility for tenants and additional income for landlords, especially important during the current cost of living crisis, AAT recommends that this relief be increased to £9,500 from April 2023 and that it increase in line with inflation (CPI) on an annual basis thereafter as a means of future proofing the relief, ensuring it remains fit for purpose and reducing the need for future HM Treasury review.
- 2.31. Interaction with £1,000 trading allowance
- 2.32. Whilst it is not possible to use both rent-a-room relief and the £1,000 property allowance against the same property income, some landlords – especially those who do not utilise the services of a regulated accountant or tax adviser - may not know this and will seek to claim both.
- 2.33. Given the low number of audits that take place, HMRC is unlikely to pick up much of this accidental overclaiming.
- 2.34. Second homes loophole
- 2.35. Since 2018, AAT has campaigned against the second homes loophole in England where council tax is avoided by classifying the home as a business and then business rates are avoided by taking advantage of small business rates relief.
- 2.36. This was possible because properties simply needed to be “available to let” for short periods that totalled at least 140 days or more per year, to be valued for business rates but there was no requirement for it to actually be let.
- 2.37. From April 2023 this loophole will be reduced by belatedly following Scotland and Wales where there is a requirement for property to actually be let. This new requirement will see a requirement to make a property available to let for at least 140 days and let for a minimum of 70 days.
- 2.38. Although an improvement, AAT believes that this change does not go far enough and represents a missed simplification opportunity. The requirement should be extended to making a property available for 210 days a year and actually let for 105 days. This would bring it into line with various tax reliefs and allowances that are available for Furnished Holiday Lettings<sup>3</sup>.
- 2.39. If 105 days of actual letting is required for tax relief and allowances, why shouldn't the same be required for designation as a genuine business?
- 2.40. **Understanding the rules about, or the tax processes involved in, becoming or being a landlord, including HMRC's information and registration requirements**
- 2.41. Last year HMRC stated, “*Those aware of the need to register with HMRC have reported they are confused by the length of time between the start of their new business and the date by which they need to register.*”
- 2.42. As it is tied to the tax year, registration can be required anywhere between 6-18 months (or as much as 22 months if already registered for ITSA for other reasons and having a new liability). In response HMRC is considering shortening the registration period but AAT Licensed Accountants were surveyed on their proposals and were deeply hostile to the specific suggestion to reduce registration to just a few months from the end of the tax year in which they become liable, with just 5% supporting the statement, “*Yes, this should be reduced to 1, 2 or 3 months from the end of the tax year in which they become liable.*”

<sup>3</sup> Furnished Holiday Lettings SA Help Sheet, 2022:

<https://www.gov.uk/government/publications/furnished-holiday-lettings-hs253-self-assessment-helpline/helpline-furnished-holiday-lettings-2022>

- 2.43. However, there is significant support for creating a completely new obligation. When surveyed earlier this year, 40% of AAT Licensed Accountants stated, “...*there should be a new obligation to tell HMRC about the new self-employment or property income at a specified period after it starts rather than there being any connection to the tax year.*” An additional 5% said it should be reduced but were not sure by how much.
- 2.44. As AAT stated in its response to the 2022 HMRC Call for Evidence on this subject;
- 2.45. *“In choosing between a reformed obligation or a completely new obligation, AAT would favour a completely new obligation given this would address more of the existing problems with the process and deliver greater benefits to all. This position was also supported by AAT’s Tax Panel. Most panel members felt that there should not be any link to the tax year but instead it should be within a specified period of time following commencement of business activity. Several panel members suggested this should be within one month whilst one suggested it should be undertaken within a 6 month period and another simply stated, “as short a timeframe as possible”.*

*As the Call for Evidence states, if taxpayers interact with the tax system early, they get the best opportunity to understand their tax obligations and prepare for paying tax. Likewise, AAT recognises that for many self-employed taxpayers, registering for ITSA also opens the door to important additional benefits, such as paying Class 2 National Insurance Contributions to build entitlement to a state pension, accessing tax free childcare or the construction industry scheme.*

*A change to a completely new obligation would also address a sizable issue with regard to simplicity and fairness whereby some are required to notify within six months and others have up to 18 months to do so, with the discrepancy based on nothing more than the day on which they started their business. Reducing the tax gap and increased revenue for the Exchequer are naturally benefits that need to be considered too.<sup>4</sup>”*

- 2.46. In its response to HMRC earlier this year<sup>5</sup>, AAT also highlighted that Singapore appears to provide the gold standard in terms of landlord registration as all landlords must notify the authorities within 15 days of the start of their tenancy agreement. This is all done entirely online via a dedicated portal. This is also required for any rent increases i.e. they must be registered online within 15 days of coming into effect. Failure to comply results in a hefty fine of 5,000 Singapore Dollars (just under £3,000) plus interest<sup>6</sup>.
- 2.47. There are other countries who have shorter registration requirements e.g. Rwanda (7 days)<sup>7</sup> and a good alternative is the Polish system<sup>8</sup> where anyone earning rental income is required to make monthly calculations and payments to the Polish Tax Office by the 20th of the month, following the month in which rent was received.
- 2.48. **Do you have difficulties in finding out, getting guidance about or understanding how your property income should be taxed?**
- 2.49. Those with a regulated accountant are unlikely to have any difficulty as this will be advised upon with the best option recommended for the client’s particular circumstances.
- 2.50. For those who unwittingly or otherwise employ an unregulated accountant or tax adviser i.e. those who are not a member of a recognised professional body, who make up a third of the sector, the chances of receiving bad, inaccurate or misleading advice is high given HMRC confirmed last year that 82% of these advisers are unqualified that many don’t undertake any form of CPD and that most are uninsured. This could easily be solved by requiring anyone who gives paid for tax or accountancy services to be a member of a relevant professional body, in the same way that is required of over 200 other professions in the UK.
- 2.51. The third cohort, the unrepresented are likely to present a mixed picture, with some finding suitable advice on gov.uk via search engines, through membership of organisations such as the National Residential Landlords Association<sup>9</sup> or via informal means, whilst others will be unaware of the existence of such advice.

<sup>4</sup> AAT response to the HMRC consultation on ITSA, January 2022:

<https://www.aat.org.uk/prod/s3fs-public/assets/aat-response-income-tax-self-assessment-registration-self-employed-landlords.pdf>

<sup>5</sup> Ibid

<sup>6</sup> Inland Revenue Authority of Singapore (IRAS) 2022:

<https://www.iras.gov.sg/taxes/property-tax/property-owners/your-situation/renting-out-my-property>

<sup>7</sup> Rwanda Revenue Authority, 2022:

<https://www.rra.gov.rw/index.php?id=163>

<sup>8</sup> Polish Government Tax Office, 2022:

<https://www.gov.pl/>

<sup>9</sup> National Residential Landlords Association, tax resources:

[https://www.nrla.org.uk/search?zoom\\_query=tax+](https://www.nrla.org.uk/search?zoom_query=tax+)



## Administrative and compliance aspects

- 2.52. **Are you aware of any information being provided by third parties, for example letting agents or platforms to assist landlords in understanding their tax obligations?**
- 2.53. Airbnb is currently required to collect taxpayer information in order to calculate taxes and report data in multiple countries including Canada, Denmark, France, Ireland, Norway and Spain but not in the UK. The fact it is able to do so for so many other countries with relative ease suggests that they could quite easily do so in the UK too should the Government choose to impose such a duty. This would doubtless improve compliance and likely lead to increased tax revenue as a result.
- 2.54. In relation to VAT, Airbnb makes clear that its service fees are subject to 20% VAT and goes on to state, *"If you are registered for VAT or your stay is for business, you may not be charged VAT on Airbnb service fees but you may be required to declare VAT on your VAT filing. To let us know you are registered for VAT, add your VAT identification number here."* They also provide a link to HMRC's web site for further information<sup>10</sup>.
- 2.55. Of perhaps most relevance is its page on responsible hosting where tax information includes details as to self-assessment deadlines; tax-free allowances such as rent-a-room relief and the tax free allowance, emphasising that both cannot be claimed on the same income; business rates and again VAT<sup>11</sup>.
- 2.56. Airbnb also provides a free tax guide for users to understand their tax responsibilities as a Host on Airbnb, a guide that has been compiled with the assistance of an independent third-party accounting firm. They also have a UK Tax Hub<sup>12</sup> which provides a wealth of information on property related tax matters including business rates, rent-a-room relief, tax allowances, expenses and VAT.
- 2.57. Other online property rental platforms provide variable information. Vrbo for example provides almost nothing related to UK taxes and their telephone help desk provides no information on the subject either. In contrast, booking.com, like Airbnb provides a wide range of tax related information from invoicing to VAT as well as Covid related financial support information.
- 2.58. Letting agents already have to deal with a great deal of legislation and compliance so the addition of requirements to provide tax information may not prove welcome.
- 2.59. These regulatory requirements don't just include a good working knowledge of relevant lettings and property management related legislation and the law of contract but numerous recent requirements ranging from Customer Due Diligence (CDD) checks, appointing an MLRO (Money Laundering Reporting Officer) and identifying and assessing any money laundering/terrorist financing risks to registering deposits with one of the three official deposit schemes.
- 2.60. Whilst some agents may reference the fact a seller now has only 60 days to pay any CGT liability arising from a sale or that their rental income must be declared to HMRC, these are unlikely to form a key part of their interactions with landlords.
- 2.61. That said, many letting agents have good working relationships with accountants from AAT and other professional bodies and will recommend clients contact them to discuss property tax related matters.
- 2.62. **Do you think that third parties, such as letting agents, platforms or holiday rental agency businesses, could assist in easing tax administrative burdens and in what ways?**
- 2.63. Given the wide variability of information provided by letting agents, platforms and holiday rental agency businesses, it would appear sensible to introduce some very basic minimum requirements for the provision of information to landlords. This is clearly very distinct from the provision of advice but nevertheless could prove helpful in easing administrative burdens for landlords and improving compliance.

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<sup>10</sup> Airbnb, VAT and how it applies to you:

<https://www.airbnb.co.uk/help/article/436/value-added-tax-vat-and-how-it-applies-to-you>

<sup>11</sup> Airbnb, Responsible Hosting page:

<https://www.airbnb.co.uk/help/article/1379/responsible-hosting-in-the-united-kingdom#taxes>

<sup>12</sup> Airbnb UK Tax Hub:

<https://news.airbnb.com/en-uk/tax-hub/>

- 2.64. For example, letting agents could provide a short form of information for all landlords, with the landlord required to confirm receipt with their signature. This could take the form of all the basic information which already exists on the Gov.uk page relating to tax on rental properties<sup>13</sup> and additionally a sentence along the lines of, *“If you sell your rental property you may have a Capital Gains Tax liability which must be paid within 60 days of sale.”*
- 2.65. A link to the same information could be provided by online platforms but again there must be some form of recorded acceptance on the part of the user. This is not only so the agent or platform can confirm compliance but HMRC will know they have been alerted to the relevant information and cannot plead ignorance at a later date.
- 2.66. **To what extent could it be helpful to landlords if letting agents, platforms or holiday rental agents provided data to HMRC on their behalf?**
- 2.67. Third party collection
- 2.68. Suggestions that agents or platforms collect and remit taxable income have a theoretical attraction but a range of significant practical barriers that make such an approach unlikely. This would be easier for online platforms, especially in relation to VAT but quickly become complicated and practically impossible, even for platforms, when the individuals tax circumstances, expenses etc. have to be factored in.
- 2.69. Nevertheless this did not stop HMRC undertaking research into such a concept back in 2016<sup>14</sup>, which inexplicably was only published last month, more than six years after taking place and AAT suspects as a result of the current OTS work in this area..
- 2.70. This research examined the idea of an alternative “voluntary withholding process to UK resident landlords, whereby a letting agent would administer and collect tax on income from property on their behalf and pass this to HMRC directly”.<sup>15</sup>
- 2.71. It is perhaps no surprise that the research found, *“Landlords tended to respond negatively towards the new Income from Property Tax Scheme where the letting agent deducts and pays tax on behalf of the landlord. There was near-universal spontaneous rejection of the concept...”*
- 2.72. This was primarily due to a *“disconnect between ‘the tax arena’ and letting agents. Letting agents’ area of expertise was seen to be property management, and they were not viewed as accredited tax experts with a professional requirement to report tax correctly in the same way that accountants and bookkeepers were”* – even though unregulated accountants and bookkeepers who make up a third of the sector are similarly not experts and have no professional requirement to report tax correctly either.
- 2.73. This was reinforced by Surrey based landlord Stuart Cox of Cox Properties who owns multiple rental properties across the county and earlier this month told AAT;
- 2.74. *“Letting’s agents specialise in property laws and regulations, not tax, I don’t want them deducting tax from my rental income. It’s not their business and I’m certainly not going to pay for it when I already employ a perfectly decent accountant. If letting agents are going to become tax collectors then what’s the point of HMRC?”*
- 2.75. This widely held landlord view also appears to be matched by letting agents. Earlier this week, AAT spoke to an Eastbourne based letting agent of some 20 years’ experience, who said;
- 2.76. *“It’s not letting agent’s role to collect and remit tax from landlords, that’s the duty of the tax collector – HMRC – who are trained, experienced, legally responsible and of course paid, to do this. Government also needs to realise, as landlords already do, that letting agents are not accountants.”*
- 2.77. AAT is not surprised by the research conclusion that *“Overall, the idea of using a letting agent to collect tax monthly and pay direct to HMRC did not test well”* and very much hopes this will be the end of the proposal.

<sup>13</sup> Renting out your property, Gov.uk:

<https://www.gov.uk/renting-out-a-property/paying-tax>

<sup>14</sup> HMRC Research, Income from property: Testing a proof of concept, 17 May 2022:

<https://www.gov.uk/government/publications/income-from-property-testing-a-proof-of-concept/income-from-property-testing-a-proof-of-concept#research-requirement-background-to-the-project>

<sup>15</sup> Ibid



- 2.78. Registration
- 2.79. Likewise, given issues around registering the fact property is being let with HMRC, there may be an attraction in requiring agents and platforms to register their clients with HMRC for tax. Again this superficially attractive idea quickly unravels when the practicalities are considered, raising numerous questions e.g. who would be liable for a failure to register? This may be straightforward for online platforms but would physical letting agents be able to charge for such a time consuming activity? Would this lead to taxpayers being even less engaged in their tax affairs?
- 2.80. Furthermore, given HMRC already has access to data relating to over 4 million tenancy deposit schemes (the majority of which have been lodged by letting agents), it is questionable whether such an approach is needed.
- 2.81. A more, effective mechanism to improve landlord registration, as AAT highlights above, would be to require registration with a specified time i.e. one month of the commencement of letting activity, rather than basing this on the commencement of activity tied to the tax year.
- 2.82. **Are there any specific areas that cause difficulty when completing a tax return to report property income?**
- 2.83. For landlords who utilise the services of an AAT accountant or a regulated accountant from one of the other recognised professional bodies, it is unlikely that the completion of a tax return relating to property income will present any difficulties.
- 2.84. For those who unwittingly or otherwise have chosen the services of an unregulated accountant or tax adviser (who make up a third of the sector) problems are much more likely, with HMRC confirming that two thirds of all agent related complaints relate to the one third who are unregulated. For example, an AAT Licensed Accountant alerted us to the fact he picked up a new client who thought he had paid too much tax on the sale of a property. His tax returns had been undertaken by someone who was not a qualified tax practitioner. The AAT member re-did 3 years of returns and the client received a rebate of £10,000 from HMRC. When asked why the unregulated adviser hadn't claimed letting relief, her reply was that she had looked at the HMRC website and had not seen anything about it.
- 2.85. For those who are completely unrepresented there may be some problems filling in a tax return although a range of credible third parties like Which?<sup>16</sup> provide helpful information on this and HMRC has itself provided free information on YouTube relating to rental income and tax returns (116,000 views in less than 12 months)<sup>17</sup> as well as webinars and . It could be suggested that the fact HMRC provides so much help to undertake something that should be relatively straightforward is a sign that the tax return is too complex but given the raft of reliefs, exemptions and allowances it is necessarily so in order to cover all available circumstances.
- 2.86. One ongoing problem is the time taken for HMRC to successfully deal with property rental income submissions. The personal tax account details the date received, work started, being processed and estimated completion date but in many cases the estimated completion date passed months ago and no notice of a tax liability has been confirmed, let alone what that liability may be. AAT is concerned by such reports but notes the inevitable impact of Covid both on staff reallocation for Covid related support schemes and shortages due to illness so very much hopes that as we have now exited the pandemic, response times will begin to quickly improve.
- 2.87. **Making Tax Digital for Income Tax starts in April 2024 and mandates quarterly electronic updates for most individuals with turnover of over £10,000 for their property (and business) income. Are you aware of these reporting obligations and have you considered how you might comply with them?**
- 2.88. AAT has repeatedly made clear that the £10,000 threshold is inherently unfair and unjustifiable<sup>18</sup> and should instead match the personal allowance (currently £12,570) otherwise non-taxpayers will have to register for MTD and provide quarterly updates despite having no tax liability.

<sup>16</sup> Which?, April 2022:

<https://www.which.co.uk/money/tax/income-tax/tax-on-property-and-rental-income/how-rental-income-is-taxed-ayc3w9f6kxgz>

<sup>17</sup> If I have income from property, HMRC, 2021:

<https://www.youtube.com/watch?v=DCUZy4ASz1A>

<sup>18</sup> AAT Comment, December 2020:

<https://www.aatcomment.org.uk/accountancy-resources/making-tax-digital/10000-making-tax-digital-threshold-inherently-unfair-and-unjustifiable-says-aat/>

- 2.89. When surveyed in 2016, almost two thirds of AAT Licensed Accountants (65%) supported linking the MTD threshold to the personal allowance compared to less than 5% who supported government plans for a £10,000 threshold. Six years on this support is likely to have increased further still.
- 2.90. AAT is concerned about the very low pilot numbers<sup>19</sup> for MTD for Income Tax and how this may impact insight, learning and improvements but nevertheless has continued to promote awareness and understanding amongst its members and will continue to do so.

## Non-UK aspects

- 2.91. **Are there any particular issues of concern to non-resident landlords or their tenants (including in relation to the Non-Residents Landlord Scheme)?**
- 2.92. The Non-Resident Landlord Scheme was introduced as a paper based scheme in 1996.
- 2.93. That it remains paper based in 2022 is not only perplexing but completely unacceptable when HMRC repeatedly claims it wishes to be, *“one of the most digitally advanced tax authorities in the world.”*
- 2.94. Paper forms (used for quarterly returns and annual certificates) are not just outdated but unnecessarily costly and inefficient.
- 2.95. AAT therefore strongly recommends that in the interests of user convenience the scheme be digitised at the earliest available opportunity.
- 2.96. Awareness and understanding of the scheme amongst letting agents and even tax advisers and accountants, appears to be mixed at best so greater prominence of the scheme amongst HMRC resources, digital prompts etc. would be helpful. A reference to the availability of this scheme could also be included in the mandatory information sheet for landlords AAT has suggested above.
- 2.97. **Do any particular issues arise for UK residents receiving rental income from overseas?**
- 2.98. A general lack of awareness and understanding would appear to be the most significant issue.
- 2.99. Severe penalties are in place to deal with undeclared overseas rental income, 200% of the amount owed in addition to the actual tax liability.
- 2.100. Despite such stiff penalties, many UK residents fail to declare overseas rental income either in full or at all.
- 2.101. 390 overseas landlords voluntarily admitted to evading tax on overseas rental income in 2019/20 as did 248 in 2020-2021 and this is likely the tip of the iceberg given 680,000 UK households own overseas property according to the Office for National Statistics<sup>20</sup>.

## 3. AAT

- 3.1. AAT is a professional accountancy body with approximately 50,000 full and fellow members and over 90,000 student and affiliate members worldwide. Of the full and fellow members, there are more than 6,000 licensed accountants who provide accountancy and taxation services to over 600,000 individuals and small/medium sized British businesses.
- 3.2. AAT is a registered charity whose objectives are to advance public education and promote the study of the practice, theory and techniques of accountancy and the prevention of crime and promotion of the sound administration of the law.

<sup>19</sup> Financial Times, January 2022:

<https://www.ft.com/content/d1503cfc-695f-4fc1-a8e7-bde06f620ea6>

<sup>20</sup> Property wealth: wealth in Great Britain, Office for National Statistics, 7 January 2022:

<https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/datasets/propertywealthwealthinggreatbritain>

#### 4. Further information

- 4.1. If you have any queries, require any further information or would like to discuss any of the above points in more detail, please contact Phil Hall, AAT Head of Public Affairs & Public Policy:
- 4.2. E-mail: [phil.hall@aat.org.uk](mailto:phil.hall@aat.org.uk) Telephone: 07392 310264 Twitter: @PhilHallAAT
- 4.3. Association of Accounting Technicians, 140 Aldersgate Street, London, EC1A 4HY

Phil Hall, 26 May 2022

