

## Cash basis for landlords

Since 6 April 2017, the cash basis has been the default basis for qualifying landlords running an unincorporated property business.

### Cash basis v accruals basis

The cash basis is easier for a non-accountant to understand, as it simply takes account of money in and money out. Income is recognised when it is received, and expenditure is taken into account when it is paid.

By contrast, Generally Accepted Accounting Practice (GAAP) requires accounts to be prepared under the accruals basis. This matches income and expenditure to the accounting period to which it relates, recognising income when invoiced and expenditure when billed, and necessitating the need to take account of debtors, creditors, prepayments, and accruals.

### Qualifying for the cash basis

The cash basis is only eligible to landlords operating an unincorporated property business who are able to answer 'no' to all the following questions:

1. Is property business carried on by a company, a limited liability partnership, a corporate firm, the trustees of a trust or an individual's personal representatives?
2. Are the receipts for the year (worked out using the cash basis) more than £150,000?
3. Is the property jointly-owned with a spouse or civil partner who is entitled to a share of the profits and who calculated their rental profits using the cash basis?
4. Has a Business Renovation Allowance been given when calculating the profits and a balancing event in the year given rise to a balancing adjustment?
5. Has the landlord elected to use the accruals basis?

If the landlord is able to answer 'yes' to any of the above, the accounts must continue to be prepared under the accruals basis.

### Default basis -- election needed

Unlike traders, landlords do not need to elect to use the cash basis. If the answer to all five of the above questions is 'no', the cash basis applies by default. By contrast, an unincorporated landlord who is within the cash basis must elect if they wish to prepare accounts under the accruals basis.

### Multiple businesses

The cash basis tests are applied separately to each unincorporated property business. There is no requirement that the same basis must be used for all businesses.

### Moving to the cash basis

When entering the cash basis, opening debtors are not counted as income when the money is received, and opening creditors are not treated as expenditure when paid. Likewise, if the landlord

moves back to the accruals basis, some adjustments are needed to prevent double counting as a result of the timing differences between the bases.

### **Capital expenditure**

The rules for deducting capital expenditure under the cash basis have also been simplified, and in most cases, the landlord can simply deduct the amount of capital expenditure from income when working out profits. Certain assets do not qualify for this treatment – the list includes land, cars, non-depreciating assets, and capital expenditure on education and training.

The usual rules for the replacement of domestic appliances apply equally under the cash basis.

### **Mileage allowances**

Landlords using a car or other vehicle in their property business can claim a fixed deduction based on mileage, as long as capital allowances have not been claimed for the vehicle or, for a vehicle other than a car, the cost has been deducted under the new capital expenditure rules. The usual rate of 45p per mile for cars and vans for the first 10,000 business miles and 25p per mile thereafter, and 24p per mile for motorcycles, is applicable.