

## SMALL TAX LIABILITIES FOR PROPERTY MANAGEMENT COMPANIES

From 1st April 2006, the nil starting rate of corporation tax has been removed, so that all companies with taxable profits are liable to tax at a rate of at least 19%.

There was concern that many small property management companies which previously had no tax liability will now have to complete company tax returns and pay corporation tax on very small amounts of income as a result of the abolition of the nil rate. Such income is often a negligible amount of bank interest. However, during the Finance Bill debate on 2nd May 2006, the Financial Secretary to the Treasury stated that where Revenue and Customs has not in the past sought Corporation Tax returns from associations with very small tax liabilities, those companies will not be affected by the changes to the legislation.

The practice extends to a property management company if it meets the following criteria:

- For the year in question it must have no anticipated allowable trading losses.
- It must have no chargeable assets likely to be disposed of.
- It must have no anticipated payments from which tax is deductible and payable to Her Majesty's Revenue and Customs (HMRC).

In addition, in order to qualify:

- The company's business must consist of the management on a non-profit making basis of a block of flats, apartments and/or houses for the owners, lessees or tenants of the flats or apartments.
- The company's Articles of Association must contain rules to ensure that only persons having an interest in the property under management own the shares in the company.
- The company must not be entitled to receive any income from an interest in land.
- The company must pay no dividend or make any other distribution of profit.

However, where a property management company receives service charges which it is obliged to hold on trust for the tenants, under Section 42 Landlord & Tenant Act 1987, the company will be liable to income tax on any interest arising on that fund. The company, in its capacity as trustee, will be within income tax self-assessment and may be required to make a return to the relevant Trust Office. Income is chargeable at the special Trust rates, 40% of the bank interest, except for the first £1,000 which remains chargeable at basic rate (20% of bank interest).

Generally where the income is below £1,000 and taxed at source, the return will not be required every year.

Most existing property management companies that meet the conditions are already likely to be treated as "dormant" by HMRC. Anybody that makes a return every year that considers it meets the conditions of dormancy treatment should contact the HMRC office responsible for his corporation tax liabilities.