



Maximising your rental income

The importance of accurate landlord accounting

Whether you're a full-time landlord or have inherited a home you've only recently started renting out, you have certain landlord accounting and financial management responsibilities that HMRC requires you to fulfil.

But you'd be forgiven for not knowing the ins and outs or even why you must keep certain financial records. That's precisely what we will cover with this guide.

You'll learn why landlords need to keep financial records and why it is a good idea to do so regardless, even if it wasn't a legal requirement. You'll also learn what documents you need to keep and for how long. Finally, we'll quickly go over our top tips for financial management, including enlisting the aid of a professional accountant.

Does that all sound good? Then let's get started with landlord accounting.

Why do landlords need financial records?

If you get rental income from privately owned property, then you're a landlord, even if you don't think of yourself as one. You will also likely have to pay income tax on the rent you receive. Otherwise, you could get into trouble with HMRC because you're not paying the tax you legally owe.

HMRC works out your tax liabilities by applying the relevant tax rates to your reported income, for which it could ask to see evidence at any time. If you don't have the necessary records, you could get into trouble. This is the main reason why it's so important for landlords to keep financial records.

Your records need to be accurate and up-to-date. That way, you can ensure you don't report too low an income and end up underpaying HMRC, which could result in significant financial penalties. Of course, you also don't want to overestimate your income and pay too much tax.

But there are more reasons why you should maintain meticulous records than simply: 'because you have to'...

1. Reduce your tax bill

There are several types of tax relief available to landlords, mainly allowable expenses and capital allowances, which are everyday and long-term expenses, respectively, made for business purposes.

According to HMRC's rules, you can deduct the value of these items from your income to reduce the figure used to work out your tax liability, reducing your tax bill.

However, you need to be able to back up the claims you make on your tax returns in case HMRC investigates it.

2. Managing cash flow: expense and rent

You didn't become a landlord — taking on all the stresses of maintaining a rental property and managing tenants — to lose money. Ideally, you want to earn a passive income.

Therefore, you need to keep your income above your total expenditure, which you'll be aware can seriously mount up with mortgage interest, repairs, maintenance costs, etc.

You might also want to create a cash flow forecast to better prepare for the future and ensure you stay in the black. To do that, you're going to need to refer to historical data - another reason to ensure your financial records are accurate and up-to-date!

3. Budgeting and financial planning

Accurate accounting also provides landlords with essential financial information to develop budgets, set rental rates, and make informed financial decisions.

It helps landlords assess the profitability of their properties, identify trends, and plan for future expenses or investments.

4. Investor confidence

Whether you're a landlord with an extensive or small portfolio and looking to expand, you might need extra investment from an external source.

If so, you'll need accurate records, along with the budgets, forecasts to present to potential investors and demonstrate financial viability.

5. Audit and financial evaluation

Accurate financial records make it easier to undergo audits or financial evaluations by external parties, such as accountants who are investigating your affairs to give you professional advice or HMRC, which can open an investigation into an individual's tax affairs whenever they judge it necessary to do so.

6. Dispute resolution

Finally, in the event of a dispute with tenants or other stakeholders, accurate financial records can serve as objective evidence that helps to resolve disputes over rent payments, security deposits or other financial matters.

Your financial responsibilities

What financial records do landlords have to keep?

There are a fair few financial records that HMRC currently requires landlords to keep:

- **Dates when you let your rental property.** This will be listed on any tenancy/lease agreements that you should be keeping anyway.
- **Rental income you receive.** This includes rent books, receipts, invoices and bank statements relating to this. Remember that weekly rents always require a rent book, but a tenant can request one in any event — and, legally, you have to comply with the request.
- **Income from services you provide.** These include things like energy, repairs and cleaning services.
- **Allowable expenses you wish to claim.** These must be related to the running of your property. So, hang on to your receipts and keep your invoices.
- **Figures related to selling a property.** If you sell a property and make a financial gain from doing so, you may have to pay capital gains tax.

Where should landlords keep their records?

You can keep paper records or digitally with software, whether that's something as simple as an Excel spreadsheet or specialised cloud accounting software, which stores your data safely online.

Whatever the method you choose, you should always assume a third party will view your records, so make sure they're accurate and up-to-date at all times.

HMRC is planning on making it mandatory for businesses and individuals that file self-assessment tax returns to store their records on software that connects with HMRC's system — the simplest solution will probably be to sign up with cloud accounting software.

This new method of financial reporting is called Making Tax Digital (MTD), and it will require you to maintain digital records, submit quarterly updates to HMRC about your income and finance costs and send one end of period statement every year. It is the quarterly updates, which aren't necessary right now, that will increase the need for landlords to maintain up-to-date records.

MTD for VAT is already here. The delivery of MTD for income tax self-assessment (ITSA), meanwhile, is a bit more complicated: it was meant to be introduced in April 2018, then 2021, 2024 and now implementation is expected in 2026.

MTD ITSA might have been delayed multiple times but it will happen, so be prepared to keep your financial records digitally.

How long should landlords keep financial records?

Private landlords must follow the rules of self-assessment — retaining records for 22 months after the end of the tax year. So, for the 2022/23 tax year that ends on 5 April 2023, you have to file by January 2024 and keep records until the end of January 2025.

However, if you miss a tax submission deadline, then you have to keep the records for a bit longer — at least 15 months after you eventually send the tax return. So, if you missed the January 2024 deadline for the 2022/23 tax return and submit in February instead, then you would need to keep the records until the end of May 2025.

If you operate through a limited company, you must keep records from the end of the last company financial year they relate to for six years.

Good financial record keeping practices

So, there are a lot of records to produce and keep as a landlord, and soon, in using certain methods. But it's not enough to simply keep records. They need to be accurate and up-to-date — otherwise, they won't be of any use to anyone. Plus, let's not forget that record keeping can be a time-consuming process, so let's go over some best practices to help you out.

Use apps and software

Apps and software designed for financial record-keeping offer many features that streamline your processes and enhance accuracy. Cloud accounting software, such as QuickBooks, Xero or FreshBook, provides a comprehensive platform to streamline various financial tasks, including invoicing, bank statement reconciliation, and income and expense tracking.

This is done with automation tools that reduce the need for manual data entry and therefore reduce the chance of errors. Take expense tracking apps that you can integrate with your software — these allow users to take a photo of a receipt, from which the information is scanned and automatically uploaded to your financial records..

With everything on the cloud, it's then as simple as logging into your account on your computer or phone to see all your data in real time at the touch of a button. If you have an accountant, they can see it too, which enhances collaboration and allows them to give you better advice.

Work to a regular schedule

Regular and strict schedules are essential for maintaining consistent and up-to-date records. By setting aside dedicated time for financial tasks, you can avoid procrastination and ensure your data is recorded promptly.

This also reduces the chance of error. Often, landlords wait until the last moment to do their financial management, realise how late they've left it, and rush, leading to mistakes and unnecessary stress.

While software will make the whole process quicker and easier, you will still need your receipts and to set up automated tasks — human input is still required!

Switch to the cash basis

Switching to the cash basis accounting system can simplify financial record keeping, especially for individuals and small businesses. The cash basis lets you record transactions when you receive or pay cash instead of the accrual basis, which requires you to record transactions when they are incurred.

The cash basis provides a more transparent and straightforward picture of your financial position, as it aligns with the actual cash flow. It also simplifies record keeping by eliminating the need to track accounts receivable, accounts payable, and complex accrual adjustments.

Back up your financial data

Always ensure your data is safe and secure by creating a backup system to protect against data loss. This will make sure that your financial data is safeguarded in the case of hardware failure, accidents and cybersecurity threats.

To back up your records, you could download everything onto an external hard drive or upload it to the cloud. Online accounting software comes with its own backup system, so that would be one less thing for you to worry about!

Do landlords need an accountant?

Another good practice for robust financial management (and one that deserves its own entire section) is to seek the help of an accountant. They'll be trained and experienced in financial accounting and bookkeeping and will be able to use their skills to assist you. From record keeping to expense tracking and tax compliance, they'll keep you in line with your obligations.

You may prefer to try and go it alone, but an accountant will come with several advantages. For example:

- **They'll save you time:** While you will still have to do some work with your accountant, namely gathering and sending your financial documents to them, they will do the heavy lifting, from adding everything to your books and checking your recorded transactions against your bank statements. That way, you can focus your time and attention on what really matters — your tenants, property and your family.
- **They'll ensure accuracy:** All that training and experience means an accountant will not only work quickly, but accurately. While no accountant will be able to guarantee zero mistakes in their work, the chances of them cropping up will be severely reduced, making your record keeping far more reliable and efficient.

- **They can give you financial advice:** Spending time with your financials will give your accountant a deep understanding of your portfolio and finances. From there, they may be able to give you tips and pointers that will help you run your properties better. This will especially be the case if they use cloud accounting technology, as they'll have access to a dashboard clearly showing where your business is right now — not what it was like when the books were last filled.
- **They can help with tax planning:** Tax returns are tough to prepare; planning your financial affairs to reduce your tax liability as much as possible is even tougher. However, a tax accountant will be able to help you, simultaneously saving you time.

Get in touch with us

By reading this guide, you've learned why keeping financial records is so important as a landlord. You now also understand the records you need to keep, for how long and in what form to keep them. You may have also realised that by using an accountant you can keep a closer eye on your property portfolio and its performance.

What we neglected to mention is that you need an accountant who specialises in working with landlords, as hiring a specialist will ensure you receive a great service, the best possible advice and a great understanding of the tax relief available to you. You need a [team of landlord accountants](#), which is where we can help..

We have a wealth of experience helping landlords with their tax liabilities, from smaller-scale operations to more expansive businesses. Our specialist landlord accountant services can also offer you practical advice and support to turn your property portfolio into a profitable success. We're based in London, Reigate and Sussex, but would still like to hear from you even if you're not nearby!

So, [why not send us an email or give us a call](#) to find out more about our accounting services? Get started with a smarter way of doing your landlord accounting today.

Ready to
find out more?

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