

Veco User Guides – Tax Calculations

Introduction

The following guide explains how Veco™ calculates tax for overseas landlords, and seeks to explain how, when interim or “on-account” payments are made to joint owners, it appears that tax is being withheld from non-overseas owners.

Definitions

- Each Veco™ “Owner Group” is the “Landlord”, in the legal sense, for a property portfolio consisting of one or many properties and tenancies.
- Within Veco™, Each Owner Group will be defined as having either a “Virtual Bank Account” or an actual “Physical Bank Account” into which monies are receipted (eg rents) and from which payments are made (eg fees, expenses, tax).
- Each Owner Group can be made up of one or many individual “Owners”.
- Owners can have a percentage “Ownership” of the property portfolio.
- Individual owners could reside overseas and be subject to tax retained by the agent – “Tax Owner”.
- Tax is calculated on the basis of “Taxable Income less Tax-deductible Expenses”, as defined in the “Chart of Accounts”.

Accounts

As monies are received and paid out, an “Account Balance Summary” is calculated for each Owner Group rather than for each individual Owner.

In theory, these balances could be calculated either by individual owner or by owner group. But, as statements need to account for all monies per Owner Group it is easier to maintain balances by Owner Group. Also, if the balances were calculated per individual problems would arise, as the following examples will show.

Worked Examples

Take a situation where an Owner Group consists of two Owners each with 50% ownership.

We will work through scenarios showing the processing per group and per individual, where the owner tax status for both individuals is the same and is different. We will seek to show the reasons why balances are maintained per Owner Group.

Scenario 1a - No Tax, No Expenses

Rent=£1000.00, Fees=£100

Working by individual

	Owner 1	Owner 2
Rent Received	500.00	500.00
Fees	-50.00	-50.00
	-----	-----
Balance	450.00	450.00
Payment to Owners	-450.00	-450.00
	-----	-----
Individual Balance	0.00	0.00

Working by Group

Rent Received	1000.00
Fees	100.00

Group Balance	900.00
Payment to Owner 1:	-450.00 (50% of group balance)
Payment to Owner 2:	-450.00 (50% of group balance)

New Month Opening Balance	0.00

Conclusion

When working a situation where neither Owner pays tax it would not matter if the balances were calculated for each individual or for the group.

Scenario 1b - No Tax, Expenses

Rent=£1000.00, Fees=£100, Expenses=£810.00

Working by individual

	Owner 1	Owner 2
Rent Received	500.00	500.00
Fees	-50.00	-50.00
Expenses paid	-405.00	-405.00
	-----	-----
Balance	45.00	45.00
Tax Retained	0.00	0.00
Payment to Owners	-45.00	-45.00
	-----	-----
Bank Balance	0.00	0.00

Working by Group

Rent Received	1000.00
Fees	100.00
Expenses	-810.00
Tax Retained	0.00

Group Balance	90.00
Payment to Owner 1:	-45.00 (50% of group balance)
Payment to Owner 2:	-45.00 (50% of group balance)

New Month Opening Balance	0.00

Conclusion

When working a situation where neither Owner pays tax it would not matter if the balances were calculated for each individual or for the group.

Scenario 2a - Both owners pay tax, No expenses

Rent=£1000.00, Fees=£100, Tax=£180.00

Working by individual

	Owner 1	Owner 2
Rent Received	500.00	500.00
Fees	-50.00	-50.00
	-----	-----
Bank Balance	450.00	450.00
Tax retained @20%	-90.00	-90.00
Payment to Owners	-360.00	-360.00
	-----	-----
Individual Balance	0.00	0.00
Bank Balance retained	90.00	90.00
Tax to HMRC	-90.00	-90.00
	-----	-----
New month opening balance	0.00	0.00

Working by Group

Rent Received	1000.00
Fees	100.00

Balance	900.00
Owner 1 tax retained	-90.00
Owner 2 tax retained	-90.00

Group Balance	720.00
Payment to Owner 1:	-360.00 (50% of group balance)
Payment to Owner 2:	-360.00 (50% of group balance)
Bank Balance retained	180.00
Tax to HMRC (Owner 1)	-90.00
Tax to HMRC (Owner 2)	-90.00

New month opening balance	0.00

Conclusion

When working a situation where both Owners pays tax it would not matter if the balances were calculated for each individual or for the group.

Scenario 2b - Both owners pay tax, Expenses

Rent=£1000.00, Fees=£100, Tax=£180.00, Expenses=£810.00

Working by individual

	Owner 1	Owner 2
Rent Received	500.00	500.00
Fees	-50.00	-50.00
	-----	-----
Bank Balance	450.00	450.00
Tax Retained	-90.00	-90.00
Expenses paid	-360.00	-360.00 (Cannot afford full £810.00)
Payment to Owners	0.00	0.00
	-----	-----
Individual Balance	0.00	0.00
Bank Balance retained	90.00	90.00
Tax to HMRC	-90.00	-90.00
	-----	-----
New month opening balance	0.00	0.00
Unpaid Invoices	45.00	45.00

Working by Group

Rent Received	1000.00
Fees	100.00

Balance	900.00
Owner 1 tax retained	-90.00
Owner 2 tax retained	-90.00
Part invoice payment	-720.00

Group Balance	0.00
Bank Balance retained	180.00
Tax to HMRC (Owner 1)	-90.00
Tax to HMRC (Owner 2)	-90.00

New month opening balance	0.00
Unpaid Invoices	90.00

Conclusion

When working a situation where both Owners pays tax it would not matter if the balances where calculated for each individual or for the group.

Now we will consider the scenario where only one owner pays tax:

Scenario 3a - One owner pays tax, No expenses

Rent=£1000.00, Fees=£100, Tax=£90.00

Working by individual

	Owner 1	Owner 2
Rent Received	500.00	500.00
Fees	-50.00	-50.00
	-----	-----
Bank Balance	450.00	450.00
Tax retained	-90.00	0.00
Payment to Owners	-360.00	-450.00
	-----	-----
Individual Balance	0.00	0.00
Bank Balance retained	90.00	0.00
Tax to HMRC	-90.00	0.00
	-----	-----
New month opening balance	0.00	0.00

Working by Group

Rent Received	1000.00
Fees	100.00

Balance	900.00
Owner 1 tax calculation	-90.00
Owner 2 tax calculation	0.00

Group Balance	810.00
Payment to Owner 1:	-360.00
Payment to Owner 2:	-450.00
Bank Balance retained	90.00
Tax to HMRC (Owner 1)	-90.00
Tax to HMRC (Owner 2)	0.00

New month opening balance	0.00

Conclusion

When working a situation where one of the Owners pays tax but there are no big expenses it would not matter if the balances were calculated for each individual or for the group.

Scenario 3b - One owner pays tax, Expenses

Rent=£1000.00, Fees=£100, Tax=£90.00, Expenses=£810.00

Working by individual

	Owner 1	Owner 2
Rent Received	500.00	500.00
Fees	-50.00	-50.00
	-----	-----
Bank Balance	450.00	450.00
Tax retained	-90.00	0.00
	-----	-----
Expenses paid	-360.00	-405.00
Payment to Owners	0.00	-45.00
	-----	-----
Individual Balance	0.00	0.00
Bank Balance retained	90.00	0.00
Tax to HMRC	-90.00	0.00
	-----	-----
New month opening balance	0.00	0.00
Unpaid Invoices	45.00	0.00

Clearly the contractor who submits the invoice for £810.00 for work on the property should get paid in full because overall there are funds, but Owner 1 has not paid his full share of the invoice because he is subject to tax even though both owners are jointly liable for all the expenses on their properties.

If we were to pay the £810.00 invoice in full we would clearly have a situation where the account for Owner 1 is overdrawn by £45. Obviously, this is not allowed.

Working by Group

Rent Received	1000.00
Fees	100.00

Balance	900.00
Owner 1 tax retained	-90.00
Owner 2 tax retained	0.00
Invoice payment	-810.00

Group Balance	0.00
Bank Balance retained	90.00
Tax to HMRC (Owner 1)	-90.00
Tax to HMRC (Owner 2)	0.00

New month opening balance	0.00
Unpaid Invoices	0.00

Here the contractor has been paid in full, and tax has been retained for Owner 1, but Owner 2 has not had his £45, and at the start of the new month we cannot see this. A situation arises where Owner 1 actually owns £45 to Owner 2.

Conclusion

Working the account in either situation does not work fully, although when working by individual the unpaid invoice balance is carried forward for Owner 1 to pay in subsequent months.

An additional scenario arises when accounting per group, if Owner 1 was to receive tax exemption before the end of the month the tax calculation would reduce to zero and we would end up with a £90 carried forward balance, but no way of knowing that the £90 is actually due back to Owner 1. Instead the system would try to split it between both owners.

The workings above are just one example of the problems we face. We get similar issues where we retain a float or monies for work orders and then receive an invoice during the same month which may be tax allowable. We then have to recalculate the tax payable by Owner 1.

Veco solution – For the purpose of making “on account” payments and producing “interim” statements before the month-end we treat both Owners as being liable for tax and re-adjust at month-end.

Veco solution a) - One owner pays tax, No expenses

Rent=£1000.00, Fees=£100, Tax=£90.00, No expenses

Rent Received	1000.00
Fees	100.00

Balance	900.00
Owner 1 tax retained	-90.00
Owner 2 notional tax retained	-90.00

Group Balance	720.00
Payment to Owner 1	-360.00 (50% of Group balance)
Payment to Owner 2	-360.00 (50% of Group balance)
Bank Balance retained	180.00
Tax to HMRC (Owner 1)	-90.00
Tax to HMRC (Owner 2)	0.00
Balancing Payment to owner 2	-90.00

New month opening balance	0.00

Overall Owner 1 has been paid £360.00 and Owner 2 has been paid £450.00.

In other words, tax is held back for BOTH owners and at the end of the month a balancing payment is automatically made to Owner 2 when we know the period is closed and nothing else can happen to alter the tax balance for either owner.

Veco solution b) - One owner pays tax, Expenses

Rent=£1000.00, Fees=£100, Tax=£90.00, Expenses=£810.00

Rent Received	1000.00
Fees	100.00

Balance	900.00
Owner 1 tax retained	-90.00
Owner 2 notional tax retained	-90.00
Part invoice payment	-720.00

Group Balance	0.00
Bank Balance retained	180.00
Tax to HMRC (Owner 1)	-90.00
Tax to HMRC (Owner 2)	0.00
Balancing Payment to owner 2	-90.00

New month opening balance	0.00
Unpaid Invoices	90.00

In this scenario we are using an example where the invoice is partly paid and it appears Owner 2 is paid £45 too much in the first month but, as the remained invoice balance of £90 is carried forward to the second month, Owner 2 will receive £45 less in month 2.

If the invoice is not partly paid because we only want to pay it in full:

Rent Received	1000.00
Fees	100.00

Balance	900.00
Owner 1 tax retained	-90.00
Owner 2 notional tax retained	-90.00
Invoice payment	0.00

Group Balance	720.00
Bank Balance retained	900.00
Tax to HMRC (Owner 1)	-90.00
Tax to HMRC (Owner 2)	0.00
Balancing Payment to owner 2	-90.00

2nd month opening balance	720.00
Rent Received	1000.00
Fees	-100.00

Balance	1620.00
Owner 1 tax retained	-90.00
Owner 2 notional tax retained	-90.00
Invoice payment	810.00

Group Balance	630.00
Payment to Owner 1	-315.00 (50% of Group balance)
Payment to Owner 2	-315.00 (50% of Group balance)
Bank Balance retained	180.00
Tax to HMRC (Owner 1)	-90.00
Tax to HMRC (Owner 2)	0.00
Balancing Payment to owner 2	-90.00

Balance	0.00

So over the 2 months, Owner 1 has received 315.00 and Owner 2 has received 495.00 – which is correct.