

# Cash basis for landlords – when does it apply?

The cash basis simply takes account of money in and money out – there is no need to worry about debtors and creditors and prepayments and accruals. Income is recognised when received and expenditure is recognised when paid. Since 6 April 2017, the cash basis has been the default basis for eligible landlords.

An eligible landlord is one in respect of whom none of the tests A to E below is met.

## Test A

Test A is met if the business is carried on at any time in the tax year by:

- a company;
- a limited liability partnership;
- a corporate firm;
- the trustees of a trust; or
- the personal representatives of a person.

A partnership is treated as a ‘corporate firm’ (and thus not eligible for the cash basis) if a partner in the firm is not an individual.

## Test B

Test B is met if the cash basis receipts for the year exceed £150,000.

The cash basis receipts are those that are taken into account in working out the profits of the property business on a cash basis.

## Test C

Where individuals who are married or in a civil partnership and who live together own property jointly, for income tax purposes, the income is split equally between them. Where a landlord receives a share of income from a jointly owned property and that income is being treated as arising to the joint owners in equal shares

(for example where the property is owned with a spouse or civil partner) and the other joint owner uses the accruals basis to calculate their profits, the landlord must also use the accruals basis to calculate his or her profits.

Consequently, if one party is not eligible for the cash basis, the cash basis is not available to the other party in respect of the property business receiving a share of the joint income.

## Test D

Test D is met if a Business Premises Renovation Allowance is made in calculating the profits of the business property business and a balancing event in the year would give rise to a balancing adjustment. Where this is the case, profits must be computed using the accruals basis.

## Test E

Test E is only relevant where none of A, B, C or D is met.

Test E is that the landlord has opted out of the cash basis by electing for the accruals basis to apply.

## Cash basis by default

The cash basis for unincorporated landlords will apply if none of the Tests A to D above are met and the landlord has not made an election for the accruals basis (Test E) to apply.

## Assistance

If you have questions or concerns if these rules apply to you, please contact:

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