

Income from Property

Residential Letting

All income from land and property in the UK is treated as a single property business, however there are some rules and reliefs which relate specifically to residential letting.

Residential letting can be either furnished or unfurnished residential property – it can also be part of your main home. If you have both UK and overseas letting income, details must be recorded separately as they are reported on different areas of the self assessment tax return.

General rules for reporting the income and expenses

Income and expenses relating to income from property are reported on a self assessment tax return for the period of the return, ie 6th April one year to the following 5th April. Although it is classed as a property business, unlike trade income, National Insurance is not charged on any profits arising.

Rental income and expenses are normally reported on the 'earnings basis', ie with adjustments for amounts in arrears and in advance. HM Revenue & Customs (HMRC) will, however, permit use of the cash basis, based on actual receipts and payments, where the total gross rental income does not exceed £15,000 in the year.

The main rule for expenses is that they must be 'wholly and exclusively' for the purpose of the business and you cannot deduct capital expenditure. These are the most common expenses:-

- pre-letting expenditure – any qualifying expenditure incurred in the seven years before the property is first let can be treated as being incurred on the first day of letting
- repairs – including interior and exterior decorating and any repairs to furniture
- renewals – replacement of small items and (if on like for like basis) of fixtures and integral parts of the property, eg bathroom or kitchen (but not for furnishings)
- services and utilities – council tax, water rates, heat & light, ground rents, insurance, gardening, cleaning etc.
- loan interest and costs – if you financed the purchase of property with a mortgage, the costs of arranging that finance and the annual interest on the loan (but not any capital repayments)
- professional fees – property management fees, costs of renewing a lease, fees for evicting a tenant, accountancy fees etc.
- costs of letting – any costs you personally incur in relation to the letting, eg advertising, travel, telephone, stationery etc.

Wear and tear allowance

If you receive income from a fully furnished residential property, you can claim a 10% wear and tear allowance. The definition of fully furnished is that the property must be furnished to the extent that it can be occupied without the need for additional expenditure by a tenant.

This allowance is calculated as 10% of the gross rents, less any rates you may have paid (eg council tax, water rates) and is intended to compensate you for the depreciation of furniture and furnishings.

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NB There used to be an alternative option to the wear and tear allowance for certain capital expenditure called the renewals basis, however that option was withdrawn from 6 April 2013.

Landlord's energy saving allowance

This allowance gives tax relief on certain energy-saving items and is available for expenditure incurred up to 5 April 2015. The relief is limited to £1,500 per dwelling (one building split into four flats counts as four dwellings) and will only be given where the expense is incurred after (rather than during the course of) construction.

The qualifying items are:

- Cavity wall insulation
- Loft insulation
- Floor insulation
- Hot water system insulation
- Draught proofing

It is not possible to claim this allowance in respect of furnished holiday lets or where you let out part of your main home, however it is available on overseas lettings.

Letting out part of your main home

If you let out part of your main home, you may be entitled to rent-a-room relief. The room, or rooms, must be let fully furnished and must be for residential purposes.

The relief gives an exemption of up to £4,250 per year, but it is important to note that this exemption is for the property, not per tenant, per room or for each owner.

If the gross rents are less than the exemption, the profit is treated as being nil (you cannot use the allowance to create a loss). If the rents exceed the exemption, you can either deduct the exemption to give the taxable amount, or deduct expenses in the usual way as you would for any other letting.

Losses

Income from property is not taxed in the same way as self-employment or partnership profits. No National Insurance is charged on the income and profits do not count as earning for pension purposes.

Likewise, any losses arising from a property business are not treated in the same way as self-employment or partnership losses. Losses arising from a UK property business cannot be offset against any other income received – instead, they must be carried forward and offset against future property income profits.



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Premiums on Leases

If a premium arises on the grant of a short lease by a landlord, the premium is partly assessed to income tax (as additional rents) and partly treated as a capital gain.

The longer the term of the lease, the more of the premium is charged as a capital gain. The premium is reduced by 2% for each twelve month period remaining on the lease, ignoring the first twelve months, to arrive at the amount to be charged to income tax.

Need help?

Waveney Tax Solutions can help with all aspects of property income. If you would like us to assist you, please telephone us on 01502 370620 or 07919 924273. Alternatively you can email us at nina@waveneytaxsolutions.co.uk.