Ward Goodman
Your success is our business

INCOME TAX: PROPERTY INCOME

Property income is calculated as the rents receivable less the expenses that can be set against those rents for tax purposes.

It includes income from all properties let by the same person in the UK. There is no separation of the income from different types of property such as commercial or residential lets, furnished or unfurnished.

However, income from commercially let furnished holiday accommodation (FHL) is calculated separately under special rules and income from overseas letting is kept separate for tax purposes.

Calculating property income

Property letting is treated as a business such that income and expenses are normally dealt with using the standard accounting practice of the accruals basis. From 6 April 2013 small businesses (those with income under £15,000) can instead choose to use the cash basis.

Start and finish The letting starts as soon as the property is acquired and it is available for letting.	• Costs to bring the first property into a habitable condition may not be deductible for income tax purposes (they may instead be capital). • It finishes when there is no longer a property available to rent and the landlord is no longer looking for tenants.
Income Rents due for the tax year (accruals basis) or actually received in the year (cash basis).	• Deposits are not included and should be matched with the cost they are intended to cover when these are incurred. • Do not include the profit from selling the property.
Expenses Costs should be deducted from the rents received for the period in which the expense was incurred (accruals basis) or when paid (cash basis).	Deductible costs include:- • Letting or managing agents' fees. • Advertising for tenants. • Buildings and contents insurance. • Accountancy fees for preparing accounts. • Maintenance and repairs. • Mortgage interest.
Furnished property * New rules from 6 April 2016 * The Wear & Tear allowance is being replaced by a relief that allows landlords to deduct the costs they actually incur on replacing furnishings in the property. [Note: this only covers the replacement of such items, not the original purchase, and does not apply to FHLs or the letting of commercial properties as these businesses receive relief through the Capital Allowances regime].	• The new relief will cover the cost of replacing items provided for the tenant's use in the property, such as movable furniture (e.g. beds and sofas), televisions, fridges/freezers, carpets and floor coverings, curtains, linen and crockery or cutlery. • Fixtures integral to the building, such as baths, fitted kitchen units and boilers are not included, as the replacement of these items would normally be a deductible expense as a repair to the property itself. • The relief will apply to unfurnished, part furnished and furnished properties.
Mortgage interest relief From 6 April 2017 the relief landlords receive for finance costs, such as mortgage interest, will be restricted.	• The restriction will limit the deduction available for finance costs to the basic rate of tax. • This will be a gradual process over four tax years, starting with the 2017/18 tax year.
Joint ownership The persons who own the property are taxed in relation to the proportion they own.	• Married couples and civil partners are treated as holding joint property equally, regardless of actual beneficial ownership (unless an election is made).

INCOME TAX: PROPERTY INCOME

Repairs

The cost of repairs to the let property are deductible provided there is no improvement that adds to the value of that property, in which case it would be deducted as a capital cost when the property is sold.

In determining whether an item is a repair or improvement, it is generally the nature of the work carried out and not the amount of cost incurred that is considered. That said, where the improvement is so small as to be incidental to a repair, the entire cost is usually treated as a repair.

- Large repair costs may still be deductible against rents where there is no significant increase in performance or capacity, for example replacing a kitchen with one of a similar standard providing there is no substantial upgrade in materials, equipment, storage units and the like.
- The nature of repairs can change to reflect technological improvements whereby the replacement of the old with the nearest modern equivalent can be allowable, for example installing double-glazing.

The deduction of repair costs can be contentious and will depend on the facts of the individual case. As such, the illustrations and examples provided above may not apply in every situation.

Rent-a-room relief

The relief applies if you let accommodation in your only or main home, whether or not you own or rent that home. The relief increased from 6 April 2016.

- ‘Gross receipts’ up to a limit of £7,500 are automatically exempt from Income Tax and, unless you elect otherwise, the actual expenses of the letting cannot then be claimed.
- Gross receipts include rents and any payments made for any other goods or services in connection with the letting, such as meals, cleaning and laundry.
- If gross receipts exceed the limit, the excess above £7,500 is taxed as property income, again an election must be made for this not to apply if you instead wish to claim the actual expenses.
- Where more than one person owns the property, each owner-occupier is entitled to £3,750 of rent-a-room relief, i.e. half the main threshold.
- The relief can apply to small B&B businesses as long as the owner occupies the property.
- It may also apply where the whole house is let for a short period while the owner goes on holiday, but not while the owner is working abroad.
- The relief applies to furnished residential accommodation so does not extend to space let as an office, storeroom or garage.

Non-resident landlord scheme

If a landlord usually lives outside of the UK, their letting agent or tenant normally has to deduct basic rate tax from the letting income where the rents exceed £100 per week and account for this to HMRC.

The landlord can apply to HMRC to receive rental income with no tax deducted if:-

- their tax affairs are up to date, or
- they have never had any UK tax obligations, or
- they expect not to be liable to UK Income Tax.

They must also undertake to comply with Self Assessment.