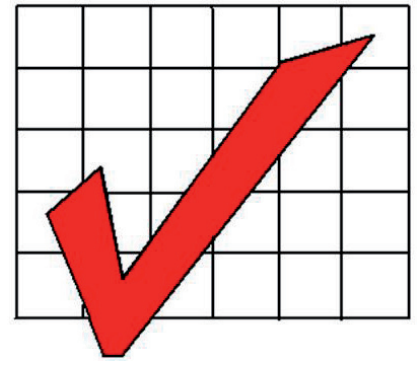


# A Brief Guide to Tax and Lettings

This leaflet is a brief guide to lettings, what records you need to keep and how to make a simple annual return of your net letting income to HM Revenue and Customs (HMRC). It does not however attempt to cover the wider aspects of personal taxation. If you are unsure about any aspect of your tax liability, then you are advised to seek further advice from your accountant or financial advisor.



## Will I have to pay tax on my letting income?

Not necessarily - it all depends on your personal financial circumstances. For example, if the let property is mortgaged, and the mortgage and related costs of upkeeping the property exceed the rent you receive, then it is possible that no tax will be payable.

## Home letting - your tax position

Income tax is payable on rent received from property which is let. Your tax position will determine whether you pay tax or not. All profit you make from letting should be added to your other taxable income for the year, although the financial records for letting must still be kept separate.

You have to pay income tax if the total of your taxable income is greater than your tax allowances.

**RENT A ROOM SCHEME** If you let rooms within your own home, you may qualify for a tax exemption. Contact your tax office for more details.

If the property is only partly used for rental business you may be entitled to extra statutory concessions. Your tax office will be able to give you details

## What expenses can be offset against the rent received?

Only those expenses incurred 'wholly and exclusively' for the purpose of the let can be offset against your letting income. This leaflet explains many of these allowable expenses in a later section. These might include mortgage interest, general repairs and maintenance, insurance and of course your agent's property management fees.

## What records do I need to keep?

You need to keep a record of all income and expenditure incurred in relation to all lettings. The records should show to whom payments have been made and from whom income has been received.

Forms of the type shown below can be used to compile your Letting Income Schedule.

## Completing your income schedule

For your guidance in completing your income schedule, the following brief notes will help you to decide what to include and what not to include:

**WATER AND OTHER RATES.** Include here the full amount of water, sewerage and any other rates paid on the property if these are not paid by the tenants. In certain circumstances, a landlord may also be liable for council tax and this could then be included.

**INSURANCE.** You may include the cost of insurance whether of the building or the contents. Insurance against any loss of rents is also an allowable expense, but any income received as a result of taking out such insurance will be taxable.

**REPAIRS & MAINTENANCE.** This may include any expenses that are for repairs and general maintenance of the property. Costs for improvements to the property cannot be fully set off against income.

**PROPERTY MANAGEMENT FEES.** On request, at the end of the tax year, your letting agent should be able to provide you with details of your rental income and management fees.

**WEAR & TEAR.** Tax relief may be available for the cost of replacing any items of furniture provided for the tenant's use such as beds and other moveable furniture, carpets and curtains, cookers, fridges and other domestic appliances. However, the initial capital cost of purchasing these furnishings is not generally an allowable expense for income tax purposes.

**FINANCE COSTS.** You may be able to claim tax relief on interest payments relating to a loan used to purchase, repair or improve a property where the interest is paid wholly and exclusively for the purposes of the letting activity.

The example schedule below demonstrates how you may calculate your tax liability on income from furnished lettings.

**SELF ASSESSMENT**

**LETTING INCOME SCHEDULE**

**Property:** 35 Limetree Grove, Cambridge

**Rental Income for Year end 5th April 20..   £9000**

**EXPENDITURE:**

**LESS:**

Insurance	£190	
Repairs and Maintenance	£310	
Motor Expenses	£60	
Cleaning Materials	£50	
Sundry Expenses (phone, post etc)	£100	
Gardener's Wages	£60	
Other .....Carpet Cleaning	£120	
Management Fees	£500	
Accountancy Fees	£180	
Wear & tear furnishings	£430	
	<u>£2000</u>	
<b>Net Rents</b>		<b>£7000</b>
LESS mortgage interest allowance	£600	<b>£6400</b>
<b>TAXABLE INCOME</b>		<b>£6400</b>

- ◆ **INCOME.** Under the Self Assessment system all non-corporate landlords will be required to report income, expenditure and net profits from their properties for the same period as the fiscal year, i.e. 6th April to 5th April of the following year.
- ◆ **RECEIPTS.** Have you kept receipts for all expenses incurred ? All tax payers are required to keep tax records of all purchases and receipts under the Self Assessment system. You are required to keep the records for at least five years.
- ◆ **FILING RETURNS.** The deadline for completion of the previous year's tax return is 31st of January for online returns and 31st of October for paper returns.
- ◆ **LATE FILING AND PENALTIES.** For late filing there will be a penalty for passing the filing date. For late payments of tax due (over 29 days late) a surcharge may also be payable.
- ◆ **OVERSEAS LANDLORDS.** Different rules apply to landlords whose usual place of abode is outside the UK (non-resident landlords). See our separate leaflet on overseas landlords.

**TIMETABLE**

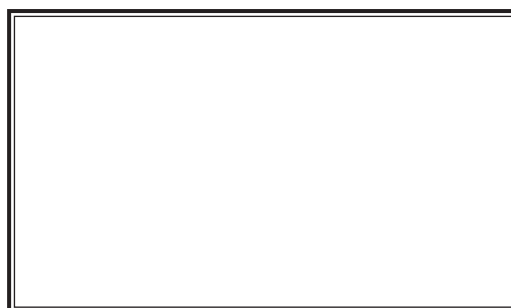
- 31 Jan - Deadline for completion of tax return online for previous tax year & payment of any tax due. Payment on account for current tax year
  - 6 April - Beginning of tax year.
  - 31 July - Second payment on account due for previous tax year.
  - 31 October - Deadline for submitting a paper tax return.
- In addition, agents acting for overseas landlords will be expected to pay tax on letting income quarterly: 30 June, 30 September, 31 December, 31 March.

**Where do you go for more information?**

If you would like more information, you should try the following sources:

- ◆ HMRC Property Income Manual. This leaflet and other information are available through your local tax office or online at [www.gov.uk](http://www.gov.uk).
- ◆ 'Which ?' - Consumers' Association Tax Saving Guide. Published annually.
- ◆ Government Guidance 'Letting rooms in your home: a guide for resident landlords' - Available at [www.gov.uk](http://www.gov.uk).
- ◆ Your letting agent, accountant or financial advisor.

Agent's Stamp



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*N.B. This summary is intended to assist landlords and letting agents to understand the effects of the tax regulations. It is not an authoritative interpretation - this is a matter for the courts. For more details, you should refer to the text of the regulations themselves.*

