

A BRIEF GUIDE TO LETTINGS AND TAX

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 the Inland Revenue. 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. (IR 87)

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. The 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

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

LETTING INCOME SCHEDULE Property : 35 Limetree Grove, Cambridge		
Rental income for the year ended 5 th April	20	£4500
EXPENDITURE		
Water and Other Rates	...210	..210
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Rents (net of rates)		4290
Insurance	...190	
Repairs and Maintenance	...310	
Motor Expenses	...20	
Cleaning Materials	...10	
Sundry Expenses (phone, post etc)	...20	
Gardener's Wages	...50	
Other (Carpet Cleaning)	...80	
.....	
.....	
Management Fees	...500	
Accountancy Fees	...50	
Wear & Tear (allow 10%of rents and Net of rates)	..429	1659
Net Rents		2631
LESS interest paid on mortgage / loan	.1800	
TAXABLE INCOME		£ .831

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 tax.

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 AND TEAR. For property let furnished, you may claim an allowance for the wear and tear of furnishings. This is calculated by taking 10% of the rental income for the year, less water rates and council tax (if paid by the landlord). Alternatively, you can claim for replacement costs - but in most cases, the 10% allowance is both more beneficial and simpler.

MORTGAGE INTEREST RELIEF. You may 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.

Self Assessment

- **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. If you wish the Inland Revenue to calculate tax due, the completed return must be made by 30th September.
- **LATE FILING AND PENALTIES.** For late filing there will be a penalty of £100 for passing the filing date and a fine of a further £100 if your return is more than six months late. For late payments of tax (over 29 days late) due 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 for previous tax year & payment of any tax due.
- Payment for current tax year.

6 April - Beginning of tax year.

31 July - Second payment on account due for current tax year.

30 September - Deadline for submitting tax return if you want Inland Revenue to calculate tax due.

In addition, agents acting for overseas landlords will be expected to pay tax on letting income quarterly:

Where do you go for more information?

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

- Taxation of Rents - Booklet IR 150
Non-resident landlords & tenants - IR 140
Rooms to Let - Inland Revenue leaflet IR87
These leaflets and other information are available through your local tax office or online at www.hmrc.gov.uk
- 'Which?' - Consumers' Association Tax Saving Guide. Published annually.
- Office of The Deputy Prime Minister Letting Rooms in your Home - Available from the Citizen's Advice Bureau or at www.odpm.gov.uk
- Your Letting Agent, Accountant or Financial Advisor.

NB. This summary is intended to assist landlords and letting agents to understand the effects of these provisions. It is not an authoritative interpretation - this is a matter for the courts. For more details, you should refer to the Inland Revenue.