Property Income

Landlords are required to disclose their rental income on their annual tax return. Below is an overview of the income and expenses that could be included when calculating rental profit.

Income

Rental income is normally taxed on the accruals basis. This means you are taxed on the rent payable in the period spread evenly over the rental contract, regardless of when you actually receive the payment of the rent. If your rents receivable are less than £15,000 per year HMRC will allow you, by concession, to be taxed on the rents received basis. The normal types of income to be included as rental income would be:

- Rents paid by your tenants
- Any money retained from your tenants' deposits to pay for dilapidations
- Insurance proceeds received in lieu of lost rents
- Premiums received

Expenses

Below is a list of typical expenses that you may incur in letting your property. This list is not exhaustive.

- Rent you pay under a lease for the property (ie if you sublet)
- Council Tax/ business rates
- Water rates
- Service charges and ground rents
- Utility bills
- Property, contents and lost rent insurance.
- Exterior and interior painting
- Damp treatment
- Stone cleaning
- Roof repairs
- Furniture repairs
- Repairs to any kind of machinery supplied with the property
- Telephone calls relating to the letting of your property
- Travel expenses specifically linked to the management of the property (HMRC will not accept claims for travel between your home and the letting agents office)
- Rent arrears if you do not expect to ever receive the rent due
- The costs of obtaining a loan or an alternative finance arrangement to buy a property that you let
- Any interest on such a loan or alternative finance payments.
- Management fees paid to an agent to cover rent collection, advertising and similar administrative expenses
- The normal legal and professional fees for renewing a lease can be deducted if the lease is for less than 50 years. You can also deduct the professional fees incurred in evicting

- an unsatisfactory tenant, with a view to re-letting, or in appealing against a compulsory purchase order.
- If you also provide services to your tenants, such as gardening, porterage, cleaning or something like communal hot water, you can claim for the associated costs if you can demonstrate that they were for the let property.
- A proportion of our fees will also be deductible.
- Any revenue expenses you incur “wholly & exclusively” for the rental business will de deductible.

Capital items

You cannot deduct the cost of buying, altering, building, installing or improving fixed assets such as property, equipment or machinery. These items are included in the cost of the property when you come to sell it.

You can claim tax allowances, called capital allowances, for the cost of purchasing vehicles and equipment such as vans, cars, tools, computers and business furniture that you use in your property rental business.

But you cannot claim capital allowances for items in letting property (such as furniture), unless the property meets the conditions and qualifies as a furnished holiday letting business. See below for further details on furnished holiday lets.

If you do have furniture in your letting property, which is not a furnished holiday let, then instead of claiming capital allowances you can claim a 10% wear & tear allowance calculated as 10% of your rent for the year less any council tax or water rates paid on behalf of the tenant. If the 10% wear & tear allowance is claimed you can not separately deduct the cost of purchasing new capital items such as furniture and white goods.

Up until 6 April 2013 it was possible to claim for the cost of furnishings on the renewals basis as an alternative to the wear-and-tear allowance. As the name suggests, using this method, the initial cost of purchasing the items are not deductible but any replacement items should be deductible, provided the replacement item does not amount to an improvement i.e. it has to be on a like-for-like basis. Please note that this alternative method of relief will not be available from the 2013/14 tax year onwards.

Losses

Generally, property losses arising can only be carried forward to offset against profits arising from the same rental business in the future. In certain circumstances losses that arise because of a capital allowances claim can be offset against your other income arising in the same or next year, but this is very rare with residential property lets. Losses from furnished holiday lets are carried forward to offset against future profits even if the losses arise as a result of a capital allowances claim.

Furnished holiday lets

If you meet the conditions of a furnished holiday let you will be able to claim capital allowances on the furniture and fittings provided with the property. Furthermore, on sale the capital gain arising should qualify for the 10% Entrepreneurs’ Relief rate of tax, rather than the full 28% rate, provided the conditions have been met for the previous 12 months.

To qualify as a furnished holiday let all of the following qualifying conditions must be met:

- availability: the property must be available for commercial letting as holiday accommodation to the public for at least 210 days during period
- letting: the property must be commercially let as holiday accommodation to members of the public for at least 105 days during the period
- pattern of occupation: not more than 155 days must fall during periods of longer term occupation (more than 31 days)

Further details regarding furnished holiday lets can be found on the HM Revenue & Customs website here: http://www.hmrc.gov.uk/helpsheets/hs253.pdf