

Allowable expenses for property businesses

What expenses may be allowed for tax?


- Apart from the cost of the property, there will be a number of expenses incurred when the property is purchased, such as legal fees and loan arrangement fees. Whilst the incidental costs of arranging finance may be eligible for income tax purposes as a deduction from rent received, the capital costs of purchasing a property are generally only allowed as a deduction against the proceeds of selling the property.
- If the property is purchased with a mortgage or other form of loan, you will make regular repayments of both interest and, perhaps, capital. Only the interest element of payments may be deductible for income tax purposes.
- Once you have started to let the property, any maintenance costs (but not improvements to the property) will be an allowable deduction. If you incur costs in decorating or repairing the property before you start to let it, to bring the property into a lettable condition, those costs may not be allowed against income tax, but should be recorded to set against the proceeds from selling the property.
- The cost of insuring the property, ground rent (if the property is held leasehold), council tax, electricity, gas, water rates, etc that you pay will be allowed. If the tenant reimburses any of these costs, then you should deduct the amount reimbursed from the expenses being claimed.
- Any costs incurred in finding tenants and collecting rent are allowed. These costs may include advertising for tenants, obtaining tenancy agreements, letting agent or property management agency fees and solicitor's fees for chasing outstanding rent.
- You may also claim the costs of running the business. These will vary from business to business, but may include accountancy fees, telephone, postage and stationery costs, subscriptions to appropriate organisations, bank charges and travel costs. If the business is run through a limited company, the Companies House filing fees and annual registered office fee, if required, would also be allowed.
- If a property is let furnished, a wear and tear allowance equivalent to 10% of the rent less certain expenses may be claimed each year instead of claiming the cost of replacing furniture and fittings as an expense.

- Any expenses incurred up to seven years before the date the letting business starts can be claimed against rent received, provided the expense is within one of the categories above that is allowed as a deduction from income.
- Although improvement costs are normally not allowable against rents received, a special relief, known as LESA (Landlords Energy Saving Allowance), of up to £1,500 per property, can be claimed for thermal insulation, draught proofing and insulation of hot water systems and floor installations.

This allowance is available until 2015 and should also be available to corporate landlords who let residential property, subject to EU state aid approval.

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