

## A Short Guide to Property Income

This is a brief guide to the taxation of income from property and tries to cover some of the most commonly raised questions. Broadly, property income is any income from furnished, unfurnished, commercial and domestic properties and from any land. For UK residents this includes land and property situated anywhere in the world.

Property income can be split into the following categories: -

### **Furnished Holiday Lets (FHL)**

For a property to qualify as a FHL it must be in the UK, furnished, and should be let out on a commercial basis. It must be available for letting to the public for at least 140 days, and actually be let out for at least 70 days, during the tax year. However, the same person cannot (normally) occupy it for more than 31 consecutive days. The benefits of an FHL include: the ability to set losses against other income; the profits qualify as relevant earnings for pension purposes and capital allowances can be claimed. Also, if the property is sold it will qualify for rollover & holdover reliefs.

### **Rent-a-room**

This provides a tax incentive for homeowners to let out a spare room within the property in which they live. Up to £4,250 of gross rents per property, per year is exempt from tax.

### **Furnished property**

Furnished lettings receive relief on wear and tear of furniture, which is calculated as 10% of rent receivable, less any payments for water rates or council tax. Alternatively cost of replacements can be claimed on a renewals basis.

### **Unfurnished property**

The 10% allowance is not available here. Capital allowances cannot be claimed in respect of equipment used in a dwelling house, but assets used in the running of a property business, for example a vehicle to collect rents and inspect property may be claimed. For non-domestic lettings, capital allowances are widely available.

### **Jointly owned property**

Where the joint owners are husband and wife or civil partners, profits for tax purposes are treated as arising to them in equal shares, even if the property is not owned as such. This can provide an equalising of income between them for tax purposes. However, they can ask for their share of profits and losses to match the share each holds in the property, if that provides a more beneficial result. Other joint owners may elect, before the start of the tax year, to be assessed on rental income in whatever proportion they jointly choose.

### **What expenses can I set against my rents?**

Generally, to determine whether an expense can be claimed against your rental income, you need to establish whether it is wholly and exclusively for the rental business. It is a general principle that you cannot deduct capital expenses from your income, and this includes the capital cost of buying the property you let, or the amount of depreciation of the property. But you can normally deduct the cost of ordinary expenditure on repairs (see 'Allowable expenses for property businesses' factsheet).

### **What is an allowable repair?**

They are expenses that prevent the property from deteriorating, for example exterior and interior decorating or mending broken furniture. You cannot deduct the cost of capital expenditure incurred on improvements, additions and alterations to the property. Allowable examples could include roof repairs, new kitchens and bathrooms and replacement windows, if they meet the requirements.

### **Non-resident landlords**

If you go, or live, abroad for more than 183 days in any tax year, your letting agent (if not your tenant) has to deduct tax from the income of your rental business. However, you can apply to HMRC for approval to receive the income from your rental business with no tax deducted, if your UK tax affairs are up to date or if you do not expect to be liable to UK income tax. Additional information is available from HMRC booklet IR140.

### **Capital Gains Tax (CGT)**

If you sell an investment property you will suffer CGT on any profits you make, over and above your annual exemption for gains in any year. If, at any time, you have occupied the property as your main home, then you will normally be able to claim exemption from tax in respect of that period, plus your last three years of ownership. You may also be eligible to claim a further exemption on gains of up to a maximum of £40,000. This is a complex area, and given the opportunity for advanced planning, we are able in many cases to save substantial tax.


### **Stamp Duty Land Tax (SDLT)**

For the purchase of freehold property there is a sliding scale starting at 1% for properties costing over £125,000 (2008/09) rising to 4% for properties costing over £500,000. The tax is also due on residential leases. There is a flat rate charge of 1% on leases over £125,000 / £150,000, the value being calculated by reference to the net present value of the rent on the new lease (see 'Stamp Duty Land Tax' factsheet).

### **Your responsibilities**

HMRC must be advised of any new sources of income by the 6 October following the end of the tax year in which this income started. If you are issued with a Tax Return Form, it must be completed and submitted to HMRC by 31 January following the end of the tax year (there's an automatic £100 penalty if it is late), plus any tax liability arising in the tax year. Further information can be obtained from HMRC or by contacting:

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