



Residential Property Letting Tax Guide

How is tax calculated and when is it due?

The amount on which tax is charged is the net rental income for each tax year (i.e. for each tax year ending on 5 April). Net income consists of the gross rent attributable to the tax year in question, less allowable expenses (see page 2).

If rent is charged, or expenses are incurred, for a period which overlaps the tax year end, this would normally be apportioned accordingly. For example, if letting commenced on 1 October 2015, at £12,000 per annum, the amount assessable in 2015/2016 would be £6,000 (6/12). Similarly, if an expense of £1,200 for an annual period were paid on 1 December 2015, the amount allowable in 2015/2016 would be £400 (4/12).

If the property is jointly owned, the net income is then split in the relevant proportions and assessed separately on each individual, at the appropriate tax rate, after taking into account any allowances or losses which may be due.

For each tax year, half of the expected tax liability will normally be due on account on 31 January in the relevant year, and half on the following 31 July, with any balance on the following 31 January. For 2015/2016, therefore, Payments on Account are due on 31 January 2016 and 31 July 2016, with any balance payable on 31 January 2017. Payments on Account may not be required in the first year of letting, or if letting income is small in relation to an individual's overall taxed income.



Allowable expenses

• Accountancy expenses	• Ground Rent
• Advertising	• Insurance
• Agent's letting fees	• Interest (<i>see page 4</i>)
• Bad debts	• Inventory
• Bank charges	• Legal fees
• Caretaking	• Maintenance charge
• Cleaning	• Management charge
• Council tax	• Postage and stationery
• Debt collection	• Repairs (<i>see opposite page</i>)
• Electricity	• Security
• Energy-saving insulation and draught-proofing	• Telephone
• Gardening	• Water rates
• Gas	• Wear and tear (furnished accommodation) (<i>see opposite page</i>)

Rent a room

Income arising from the letting of furnished accommodation which is part of an individual's main residence is exempt from tax, provided that the rent (before any deductions for expenses) does not exceed £4,250 in the tax year in question. (£7,500 from 6 April 2016).

The property must in fact be used as a main residence at some point in the relevant period for the exemption to apply. For example, if an individual goes overseas on 1 December 2015 for 18 months and decides to let part or all of the house from that date for a year, rent a room relief will not be due for 2015/2016, because the property was not in use as a main residence between the start of the period (1 December 2015) and the end of the tax year (5 April 2016). (£7,500 from 6 April 2016).

If the gross rent does exceed £4,250 in a tax year, one can either elect to be assessed on the amount by which the gross rent exceeds £4,250, or alternatively a statement of income and expenses can be drawn up and the net income assessed in the normal way.

Similarly, if expenses exceed income, one can elect for the exemption not to apply so that tax relief can be obtained for the loss.

Rent a room relief only applies to residential, not commercial and letting.

Repairs and maintenance

Expenditure on repairs is allowable as a revenue expense for income tax purposes, provided that the work carried out does not represent an improvement.

HM Revenue and Customs (HMRC) will normally accept that repairs do not constitute an improvement merely because more modern materials are used, such as when a single-glazed window is replaced by a double-glazed window.

An example of an improvement would be work carried out on a roof, where instead of simply restoring the roof to its original condition, new windows were installed as part of a loft conversion.

Expenditure in relation to improvement, additions or extensions to a property is capital, and is added to the cost of the property for Capital Gains Tax purposes.

As a general rule, the replacement of part of an asset is a repair, but the replacement of an entire asset is likely to be capital.

Until 5 April 2016 fully furnished lettings qualified for a 10% wear and tear allowance. From 6 April 2016 all landlords will be able to claim a deduction on the expenditure when furniture, furnishings and appliances are replaced, which are provided for the tenants use. There will be no tax relief on the original purchase of the items.

The landlord will be able to claim relief for the repairs to fixtures which are an integral part of the building, which includes fitted appliances, boilers, as long as it's like for like replacement and not an improvement.

This does not rule out replacing for example single glazed windows with a modern double glazed one.

Any expenditure which is an improvement will be added to the capital cost of the property when calculating the capital gain on the sale.

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Interest

Until 5 April 2017, all interest incurred on the purchase of the property will be allowed in full against the rental income for that year.

The rules are due to change with effect from April 2017 when there will only be an allowance at Basic Rate (20%) against the taxable income for the year.

The change is being phased in as follows:

2017/2018	25% is restricted to basic rate
2018/2019	50% is restricted to basic rate
2019/2020	75% is restricted to basic rate
2020/2021	all is restricted to basic rate

This may cause problems for some landlords who have large borrowings as it increases their taxable income which may have an impact on the tax rate, personal allowance and higher income child benefit charges.

Example

Alexander has a number of rental properties.

Income	£100,000 per annum
Allowable expenditure before interest	£20,000
Loan interest	£60,000

Assuming other income equals personal allowance.

Rental profits

	Rental profits	Tax Credit	Tax Due
2016/2017	£20,000	0	£4,000
2017/2018	£35,000	£3,000	£4,600
2018/2019	£50,000*	£6,000	£7,600
2019/2020	£65,000*	£9,000	£10,600
2020/2021	£80,000*	£12,000	£13,600

*As income over £50,000 would also have to pay High Income Child Benefit charge if child benefit received.



Moore Thompson has been excellent on everything they have done for me, marvellous company.

Tony Turner



Main residence exemption

Most people are aware that when they sell their main residence no Capital Gains Tax is due as the gain is covered by the Principle Private Residence (PPR) relief. This is a valuable relief which benefits many people and with careful tax planning it can go further than you may think.

An individual's residence is a place where one lives. In deciding whether a property is a main residence, HMRC will look at factors including:

- the address used for utility and other bills;
- the address used on the electoral roll;
- address used by your bank.

If your property includes more than one building, particularly if it includes several out buildings, whether the out buildings are included within the definition of dwelling house will depend upon their relationship to the main property and whether they can be considered a single entity.

Garden or grounds

Garden or grounds will include any enclosed land surrounding or attached to your dwelling house for the purposes of enjoyment of the property.

If your garden and grounds exceed half a hectare, (1.25 acres in old money) it may not all qualify for the relief. However, larger gardens or grounds may qualify but only if they are appropriate to the size and character of the property and required for reasonable enjoyment of it.

Sale of part of the garden

Relief should be available where a part of the garden or grounds is sold before the sale of the main dwelling house. However, where the grounds are in excess of half a hectare and they are disposed of separately it may be difficult to demonstrate that they are required for the reasonable enjoyment of the property.

The PPR relief is one of the most valuable Capital Gains Tax Reliefs, however, the operation of the relief is not always straightforward nor its availability a foregone conclusion. Tax planning can help enormously in identifying potential issues and maximising the available relief.

Periods of occupation

You are entitled to relief on a disposal of a property to the extent that it was your only main residence during the period of ownership and that there has been some period of occupation of the property, (ignoring any periods before 31 March 1982). If the property was not your only main residence for the entire period of ownership then the gain must be apportioned between periods when it did qualify as your PPR and when it did not qualify for PPR.

Certain periods of absence qualify for relief such as:

- the last 18 months of ownership from April 2014;
- a period or periods of absence not exceeding three years, where you did not occupy another residence qualifying for relief;
- a period of absence during which you were working abroad where you did not occupy another residence qualifying for relief;
- and a period of absence not exceeding four years where you were required to reside elsewhere by your employer where you did not occupy another residence qualifying for relief.

Nominating a residence

You can only have one main residence for PPR purposes. If you own two properties, it is possible to nominate one that you would like to be treated as your main home. By doing this it is possible to minimise the tax charge on both properties by switching your PPR between them. The election must be made in writing to HMRC.

In the case of married and civil partnership couples both partners must sign the election for this to be effective. The election must be submitted to HMRC within two years from the date of acquiring the second property.

Private Letting Relief

Private Letting Relief is given on the sale of a property which was your main residence and had been let as residential accommodation. The amount of the Private Letting Relief is up to £40,000. You cannot claim more letting relief than principal private residence relief.



Losses

If more than one property is let, a loss for a year on one property can be set against a profit on another of the same type.

An overall loss cannot be set against income from other sources, such as employment or investment income, but must be carried forward against future profits from the property letting business.

Any losses not utilised at the time when property letting ceases will normally remain unrelieved.

Pre-letting expenses before a property is let on commercial terms, or expense incurred in periods between letting on commercial terms, will normally be deductible from future rents.

Furnished Holiday Lettings

Furnished Holiday Lettings attract various tax reliefs provided certain conditions are met.

Where certain criteria are met then the rental income and associated expenditure including capital allowances can fall within the Furnished Holiday Let regime. The property must be in the UK or European Economic Area (EEA).

The main requirements are that the property is available to let at least 210 days per year and actually let for more than 105 days per year. Any lets over 31 days do not count towards the minimum days let.

The benefits of the furnished holiday lets:

- a) It is treated as a business and the income qualifies for pension contribution purposes
- b) Capital allowances can be claimed on furniture and equipment for the use of the tenants
- c) The property will qualify for capital tax reliefs for traders, such as entrepreneurs relief
- d) Could qualify for IHT business property relief, although the tests are very strict
- e) We do believe they will be caught by the new interest relief restrictions.

Losses

Any loss made from 2011/12 in a qualifying UK or EEA Furnished Holiday Letting may only be offset against income of the same or EEA Furnished Holiday Letting.

Period of grace

HMRC have introduced a period of grace to all Furnished Holiday Lettings who do not continue to meet the actual let requirements, for one or two years, to elect to continue to qualify throughout that period. The period of grace is available up to two years after at least one qualifying period.

The minimum period over which a qualifying property must be available for letting to the public in the relevant period is 210 days in a year as from 5 April 2012.

The minimum period over which a qualifying property is annually let to the public in the relevant period is 105 days as from April 2012.

Please contact us if you would like further advice on any of the above.

Non-resident landlords

An individual is classed as non-resident if they live abroad for more than six months in the relevant tax year. Even if you are a UK resident for tax purposes.

You can receive your rental income gross, subject to HMRC agreement and return your income and expenditure on a self assessment return or, your letting agent can deduct tax from the rental payment less any expenses they have paid and remit the net amount to you.

At the end of the tax year the agent or tenant must provide you with a certificate of the net rent paid to you and the amount of tax deducted and paid over to HMRC.

You will then need to send in a tax return showing the income and expenditure. If you have paid too much tax, it will then be refunded to you or you will need to pay any additional tax due.



Annual tax on enveloped dwellings (ATED)

If a non-natural person holds residential property, it may be caught by the ATED regime. The main non-naturals are: a company, a partnership with a corporate partner or a collective investment scheme. If caught there will be an annual charge payable as follows:

The values are those when purchased or the 1 April 2012 if acquired before then.

£500,000 to £1 million	£3,500 from 6 April 2016
£1 - £2 million	£7,000
£2 - £5 million	£23,350
£5 - £10 million	£54,450
£10 - £20 million	£109,050
Over £20 million	£218,200

There are reliefs and the main ones are:

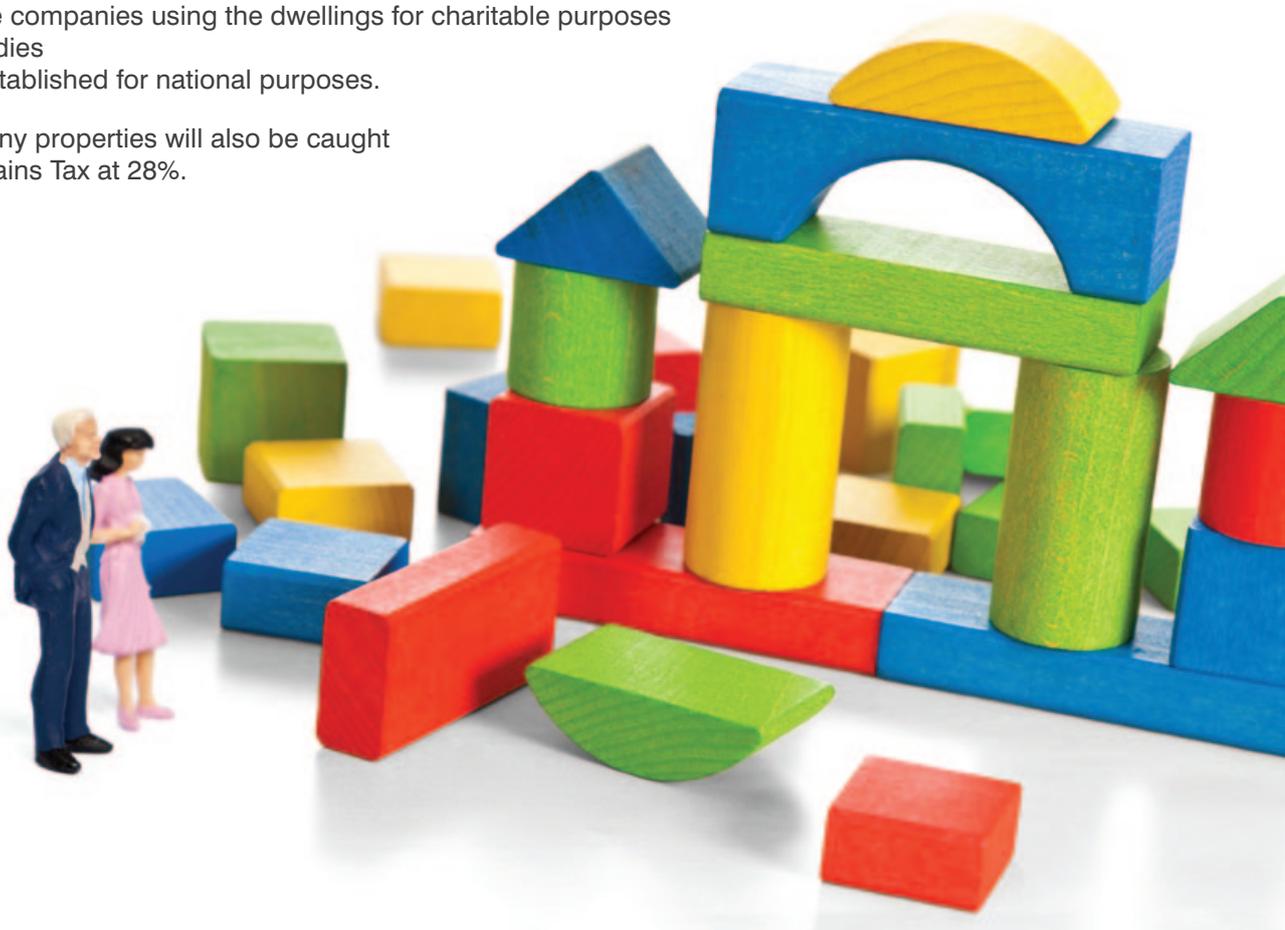
- Let to a third party on commercial terms and the tenant is not connected with the owner
- Open to the public for at least 28 days a year
- Being developed by a property developer
- A farmhouse being occupied by a farm worker or long serving farm worker
- Being used by a trading business to provide living accommodation to certain qualifying employees.

If you are claiming a relief then you will still need to file a Relief Declaration Return form annually for each relief being claimed. If there is still an ATED liability after reliefs then an ATED return form will need to be completed. This normally needs to be completed by the 30 April in the year of charge.

There are exemptions from ATED for:

- Charitable companies using the dwellings for charitable purposes
- Public bodies
- Bodies established for national purposes.

In addition, any properties will also be caught for Capital Gains Tax at 28%.



Gains on disposal

Capital Gains Tax may be payable when a property which has been let is sold at a profit.

If a property is sold then the difference between the sale proceeds after deduction the cost of sale less the cost of the property including purchase costs and any improvement expenditure will be taxed as a capital gain or generate a capital loss.

No Capital Gains Tax will be due where a sale takes place within 18 months of the date when the property was last used as the owner's private residence, as long as the premises was occupied as the principal private residence throughout.

It may be possible to reduce Capital Gains Tax by transferring part of an interest in a property to a spouse or civil partner, in order to maximise the use of annual exemptions and lower rate bands.

Stamp duty

When purchasing a residential property, stamp duty will be payable by the purchaser on the cost of the property at the following rates:

Under £125,000	Nil
The next £125,000	2%
The next £675,000	5%
The next £575,000	10%
Over £1,500,000	12%

For example, if a house is bought for £535,000 the stamp duty is:

£125,000 at 0%	£0
£125,000 at 2%	£2,500
£285,000 at 5%	£14,250
	£16,750

From the 6 April 2016 the Chancellor announced that where an individual already has a residential property, there will be a 3% supplement applied to additional properties acquired.

In the above example this would add £16,050 to the stamp duty payable.

Companies/non-natural persons

Normally companies will pay the same stamp duty as an individual.

However if a company or non-natural person acquires a residential property costing over £500,000 they could have to pay 15% stamp duty on the purchase.

This does not apply to properties which qualify for exemptions under the ATED regime.

Tenancy Deposit Scheme

A landlord may not take a deposit in respect of an assured Shorthold tenancy unless it is covered by a Tenancy Deposit Scheme.

A Tenancy Deposit Scheme is designed to:

- Safeguard tenants deposits
- Facilitate the resolution of disputes arising in connection with such deposits.

There are two different types of schemes namely Custodial Schemes and Insurance-based Schemes. The landlord or agent must give the tenant details of how their deposit is protected within 14 days of receiving a deposit.

If you require further details, please do not hesitate to contact us.

Our taxation services

At Moore Thompson, we have considerable experience with clients in the property industry and have links with a number of property management agents. Our understanding of the agent's responsibilities, particularly with regard to taxation, enables us to liaise closely with them to provide the maximum benefit to their clients.

Through giving taxation services to landlords, we have developed our services both to UK-resident and overseas individuals, and act for landlords from different countries, who let residential property in the UK.

Due to the requirements of the HMRC scheme for non-resident landlords, it is most important that expert advice is sought in this area.

How can we help

For an inclusive fee, our Landlord's Tax Service will:

- Deal with HMRC notification and all relevant forms on commencement of letting
- Prepare an annual lettings account
- Submit the account to HMRC and, if appropriate, agree any tax liability
- Take advantage of any tax-saving opportunities
- Advise on payment of any liability
- For non-resident landlords:
 - Prepare any additional forms/claims to UK allowances
 - Prepare any application for exemption from tax deduction scheme and liaise with your managing agent to avoid or minimise retention of tax from your net income.

Please contact us to arrange a **free** initial meeting.

Our services...

- Bookkeeping and accounting
- Management accounts
- Audit services
- Company secretarial
- VAT
- Capital allowances
- Capital gains tax
- Corporation tax
- Tax planning
- Tax enquiries
- Personal tax
- Non-domiciliary tax issues
- Business strategy and planning
- Independent business reviews
- Budgeting and forecasting
- Performance improvement
- Increasing growth
- Preparing for exit
- Payroll bureau
- Real Time Information
- Auto-enrolment
- Child benefit tax charge
- Tax-free childcare
- Retirement planning
- Estate and inheritance tax planning
- Trusts and executorships

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