

Income from Property

Rent a room relief – income tax

Where a home owner lets part of his main residence to a lodger, rental income is only chargeable to income tax to the extent that it exceeds £7,500 (£4,250 up to 5 April 2016). There is no limit to the number of rooms, but only £7,500 in total is exempt. Income from property that is within the total exemption is to be disregarded for tax return purposes.

Buy to Let

Letting property, a 'business of letting' for income tax purposes, is not a trade, but is treated as one for many tax purposes. Expenses available include:

- advertising for tenants
- rent collection costs
- bad debts
- agents' charges for management
- accountancy fees for accounts preparation
- repairs to property
- Up to 5 April 2016, if the property was let furnished, a 10% wear and tear allowance (i.e. 10% of net rental income, excluding rates, water rates and council tax if paid by the landlord) was deductible for income tax. This has been removed as from 6 April 2016 onwards.

Capital expenditure is not allowable.

Interest paid

Interest paid on loans used to buy the land or property used in the rental business, for improvements or alterations, repairs etc. will be deductible, together with incidental costs of arranging loan finance. From 6 April 2017 onwards the tax relief will be restricted for higher rate taxpayers.

Using the home loan

People often use the equity in their own home to fund buy to let properties. It does not matter what the borrowing is secured upon, provided the interest is incurred wholly and exclusively for the purposes of the business of letting.

Joint accounts

It may be the case that the buy to let property is in one person's name but the main residence is in joint names. HMRC usually normally allow relief for the home funded interest provided the letting business bears the cost of the interest. It is advisable to ensure that money passes from the business account to the joint account to fund the interest.

Losses

Losses can only be set off against other income from UK property (if they are losses from UK property) or overseas property if they arise from overseas property. The two exceptions are losses arising from capital allowances which can be offset against other income or furnished lettings losses (see below).

Furnished Holiday Lettings (FHLs)

Tax reliefs

Furnished holiday lettings in the UK (and latterly the EEA) have traditionally received certain favourable tax treatments normally afforded to trades.

However, 6 April 2011 and 6 April 2012 saw some important changes to the regime.

From 6 April 2011, it was no longer possible to set off losses arising on a furnished holiday letting against general income (or capital gains). After 2010/11, you are only be able to carry FHL losses forward against **future profits from furnished holiday lettings**.

The following tax reliefs, remain in force beyond 6 April 2011:

Various capital gains tax reliefs, such as roll-over relief for reinvestment in business assets, hold-over relief for gifts, entrepreneur's relief and relief for loans to traders.

- Availability of capital allowances.
- Income qualifies as relevant earnings for pension purposes.

Qualification as an FHL:

From 6 April 2012, the eligibility criteria for qualification as a furnished holiday letting has changed:

For a property to be qualified as an FHL, it must meet the conditions set out in s325, ITTOIA 2005, broadly:

- The property must be available for letting to the general public not less than 210 days in the tax year; and
- The property must be actually let to members of the public for at least 105 days in the tax year.

Prior to 6 April 2012, the eligibility criteria were as follows:

- The property must be available for letting to the general public not less than 140 days in the tax year; and
- The property must be actually let to members of the public for at least 70 days in the tax year.

VAT

Holiday accommodation is standard rated for VAT. If the owner has a significant portfolio of properties, his total turnover may exceed the VAT registration threshold. Where a property is situated in another EEA country, local VAT must be charged if that country's threshold is exceeded; Spain, for example, has no exempt threshold.

This information is provided for general guidance only. Please contact us if you require advice on any specific part thereon.