TAXINSIDER

presents...

The 2015 Landlord's Guide to tax, allowances and obligations

While many people may have the desire to become a landlord of some sort, whether just owning a single flat as an investment, or a range of properties to build a business, few fully appreciate the tax implications.

That's why Kent Reliance for Intermediaries, a specialist lender, has commissioned this guide from independent experts, Tax Insider. We understand the attraction with Buy to Let and have in fact even won a recent award as Best Buy to Let Lenders.

We wanted to ensure any current or potential landlords were properly equipped, so this guide has been designed with all landlords in mind from residential, Buy to Let and multiple properties to even those doing holiday lets.

It may not cover every single aspect of tax, but it will give you an overview of the essentials as well as some, further reading.

KentReliance
for Intermediaries

1 Here's what you **need to know...**

If you rent out property in the UK you need to tell HMRC, as you will have to pay:

- income tax on any rental profits; and
- capital gains tax on any profit that you make when you sell the property.

If being a landlord is your main job and you rent out more than one property or buy properties to let, you may also need to pay Class 2 National Insurance contributions.

Different rules apply if:

- you rent out a room in your own home;
- you let furnished holiday lettings; or
- you are a non-resident landlord.

You will also be able to claim deductions for expenses. If you make a loss, you will be able to carry it forward against future profits.

For tax purposes, there is no difference in the treatment of rental income. This is regardless of whether you buy a property specifically to let out, whether you let out a property that was your own home or you let out a property you have inherited.

Unless the property counts as a furnished holiday let (see next page), it does not generally matter whether the property is let furnished or unfurnished.

All rental income which is received from a let rental property in the UK (which is not a furnished holiday letting or a room in the landlord's house) by a UK resident landlord, where each property is owned by the same person, is grouped together and treated as a single property rental business.

Example

Jason owns three properties, A, B and C, on his own which he lets out. He also has two properties, D and E, which he lets out but owns jointly with his brother Jack. All are in the UK.

For tax purposes this forms two property rental businesses – one comprising properties A, B and C owned by Jason on his own, and one comprising properties D and E which are jointly owned by Jason and Jack.

Filling in a tax return

- As a landlord you must register for self-assessment with HMRC (see www.gov.uk/register-for-self-assessment/overview).
- You must complete the property income pages of the tax return. Online returns must be filed by 31 January after the end of the tax year. An earlier deadline of 31 October after the end of the tax year applies to paper returns.
- Penalties are charged if returns are made late.

Payment date for tax

- Tax is due by 31 January after the end of the tax year to which it relates.
- If your total tax bill for the previous year was more than £1,000, payments on account of the final bill (equal to 50% of the previous year's liability) are due on 31 January in the tax year and 31 July after the tax year, with any balance due by 31 January after the end of the tax year.
- Interest is charged on tax paid late.

What records do I need to keep?

You will need to keep records of all rental and other income received and details of all expenses, together with invoices and receipts.

2 What kind of landlord are you?

Start of the business

- A property rental business commences when the first property is let.
- Any subsequent lets by the same landlord are treated as part of the existing property rental business.
- You should inform HMRC that you are letting out a property as soon as you can.

Single property business

The concept of a single property business means that it is not necessary to work out the profits and losses for each property individually for tax purposes. The profit for the property rental business is the rental income for all properties in that business, less the expenses incurred in relation to that business. You can read more about deductable expenses in section 3 overleaf.

Non-resident landlords

- A non-resident landlord is a person (individual, company or trustee) who has UK rental income and whose, `usual place of abode' is outside the UK.
- A special scheme – the Non-residents Landlords Scheme (NRL Scheme) – applies to tax the rental income of non-resident landlords. Guidance on the scheme can be found on the gov.uk website at www.gov.uk/government/publications/non-resident-landord-guidance-notes-for-letting-agents-and-tenants-non-resident-landlords-scheme-guidance-notes.

Furnished holiday lettings

- Special rules apply to lets which meet the definition of a furnished holiday let.
- Furnished holiday lettings have some advantages over other types of let.
- The rules on furnished holiday lettings are set out in HMRC Tax Return Help Sheet HS253 (see www.gov.uk/government/publications/furnished-holiday-lettings-hs253-self-assessment-helpsheet).

3 Expenses, reliefs and deductions

Deduction for costs

As a landlord you will incur various costs in letting out property. It is important to ensure that you claim tax relief for expenses where possible.

The nature of relief will depend on whether items are revenue or capital in nature.

Revenue expenditure: Expenses incurred in the day-to-day running of the property rental business.

Capital expenditure: Money spent on buying the property and improving it and on other assets used in the business.

Expenses incurred before the property is first let

Landlords often spend a considerable amount getting a property ready to let out. You can claim a deduction for pre-letting expenses if:

- they were incurred no more than seven years before the start of the property rental business; and
- they would be deductible if they were incurred once the business had started.

Allowable pre-letting expenses are treated as if they were incurred on the first day of the property rental business and deducted in computing rental profits for the first period.

Relief for...

...expenses

In working out the profits of the property rental business, a landlord can deduct expenses if:

- they are incurred wholly and exclusively for the purposes of the business; and
- they are revenue in nature.

Typical expenses which may be deducted in computing rental profits for tax purposes include:

- letting agents' fees;
- costs of collecting rent;
- inventory fees incurred;
- accountancy fees;
- advertising expenses;
- buildings and contents insurance;
- council tax;
- repairs to the property (but not improvements);
- rent, ground rent or service charges paid;
- utility bills;
- cleaning;
- gardening;
- other services;
- phone calls;
- printing, postage and stationery;
- travel expenses.

...mortgage interest

As a landlord you may take out a Buy to Let mortgage in order to buy a property to let out. Alternatively, you may let out your own home on which you have a mortgage.

Depending on the type of mortgage, the repayments may comprise interest only or interest and capital.

Relief is available for interest on loans used to fund the purchase of the property up to the value of the property when it was first let out. The loan does not need to be secured on the let property.

No relief is available for the capital element of any mortgage repayments.

...losses

If you make a loss you can carry it forward and set it against future profits from the same property rental business. It cannot be used against other income.

4 Calculating taxable profits

Calculating taxable profits

To work out the profit or loss for your property rental business:

1 Add together the rent received in the period from all rental properties.

2 Add together all allowable expenses incurred in relation to all rental properties (see section 3).

3 Deduct total expenses from total income.

4 Deduct any capital allowances available in relation to the business.

5 The result is the taxable profit or allowable loss.

Property income is assessed for a tax year (the year from 6 April to the following 5 April). It makes life easier if you prepare accounts to 5 April each year.

Furnished lettings – wear and tear allowance

If you let out a furnished property which is not a furnished holiday let, you can also claim a wear and tear allowance equal to 10% of net rent (ie rent after deduction of costs that you have paid but which the tenant would normally pay, such as council tax).

Capital expenditure

- You cannot deduct capital expenditure in calculating taxable profits.
- The cost of the property and improvements plus costs of sale and purchase are taken into account when working out capital gains tax on the eventual sale.
- You can also claim a wear and tear allowance equal to 10% of net rent (ie rent after deduction of costs that you have paid but which the tenant would normally pay, such as council tax).

Capital gains tax

- You will have to pay capital gains tax if you make a gain when you sell a property that has been let out.
- If the property has been your main residence at any time, relief is available for the period it was your main home (main residence relief). The gain relating to the last 18 months of ownership is also exempt. You may also qualify for lettings relief.

Rent-a-room

- Under the rent-a-room Scheme, you can let out a room in your own home and receive rental income of up to £7,500 a year tax-free. If the income is shared, each person can earn up to £3,750.
- If your income is less than this, you do not need to tell HMRC. If it is more, you must tell HMRC and pay tax on the excess.
- You can instead choose to work out actual profit if this gives a better result.

5 Where can I read more?

We've also put together some useful links you may want to visit:

General guidance
www.gov.uk/renting-out-a-property/paying-tax

Self-assessment
www.gov.uk/register-for-self-assessment/overview

Rent-a-room
www.gov.uk/rent-room-in-your-home/the-rent-a-room-scheme

Furnished holiday lettings
www.gov.uk/government/publications/furnished-holiday-lettings-hs253-self-assessment-helpsheet

Non-residents Landlords Scheme
www.gov.uk/government/publications/non-resident-landord-guidance-notes-for-letting-agents-and-tenants-non-resident-landlords-scheme-guidance-notes

If you have more any questions about Buy to Let mortgages, or mortgages in general, please contact your mortgage adviser.

Information correct as of July 2015. Information is subject to change and you should contact HMRC or seek professional advice for full details.