

Taxation of property rental business



Profits from UK land and property are treated, for tax purposes, as arising from a rental business. The letting of residential property is treated as a 'business' even if you only let one property.

Determining rental profits

You are assessed to income tax on the net profit (i.e. gross rental income less allowable expenditure) from your rental business. Allowable expenditure is that incurred wholly and exclusively for business purposes and is sometimes referred to as 'revenue expenditure'. Generally, the main types of revenue expenditure will be repairs and redecoration, certain finance costs* and fees paid to a managing agent.

*Rules were introduced on 6th April 2017 which limit the amount of tax relief available on finance costs (such as mortgage interest paid) so that by 2020/21 tax relief will be available at the basic rate only.

It should be noted that expenses related to any personal use of the property are not allowable as a deduction for tax purposes.

If an expense is capital in nature (such as the cost of building an extension) then it will not be deductible in arriving at taxable rental profits. However, capital expenses can usually be added to the cost of the property and qualify for capital gains tax (CGT) relief in the event of a future sale.

We can advise which expenses should be allowable deductions for income tax purposes and calculate your taxable rental profits.

Losses

It is not unusual to see expenditure exceed income and a property rental business make losses in the early years. For tax purposes, rental losses can be carried forward and set against future profits from the same rental business.

Rental losses can be carried forward indefinitely until tax relief is obtained or until the rental business ceases so, in essence, they should not be lost provided the rental business makes a profit in the future.

Unlike trading losses, property rental losses cannot generally be offset against your other income.

Husband and wife/civil partnership ownership

If you own a rental property jointly with your spouse or civil partner, the default position for UK tax purposes is that income from the property is treated as if it belonged to each of you in equal shares. This means that you are both taxed on half of the income, regardless of the actual proportions in which you may legally own the property.

However, if preferred, an election can be made to tax you on your share of the rental profits based upon your legal share in the property. Strict time limits apply and we can assist in the preparation and submission of the election as required.

Capital gains tax on rental properties

If you acquire a property purely for rental purposes, any gain on disposal will be subject to either 18% or 28% CGT under current rules.

However, where your second property has also been used as your main residence at some point, an element of the capital gain may qualify for relief under the Principal Private Residence (PPR) relief rules. We can help calculate capital gains arising in these circumstances; claiming available reliefs as appropriate.

Non-resident landlord scheme (NRLS)

If you have rental property in the UK but are not tax resident here you may fall within the scope of the non-resident landlord scheme, which means that basic rate income tax should be deducted from rental income (and paid over to HM Revenue and Customs) before the net amount is paid to you as the landlord.

This is the default position that all non-resident landlords should follow but in certain circumstances, landlords can apply to receive their rental income gross and pay the resulting tax liability through their annual tax return. We can help guide you through the application process and prepare your tax return on your behalf.

Where a non-resident sells a UK property they will be charged to CGT following the sale. The rate of CGT will depend upon whether the property is residential or commercial. Various options may be available to enable the owner to calculate the capital gain arising in the most tax-efficient manner – we can assist in the calculations.

Furnished holiday lets (FHLs)

The tax rules relating to furnished holiday lets (FHLs) have been the subject of a great deal of change over recent

years, making it a potentially difficult area to navigate. Broadly, the changes mean that it is far harder for a property to qualify as a FHL and where it does, the tax benefits are less favourable.

Where you own a property that does meet the qualifying conditions, it will be treated as a 'trade' for certain tax purposes and may benefit from certain CGT reliefs and capital allowances on fixtures and furniture.

We can advise whether your property should qualify as an FHL for tax purposes and determine what tax reliefs should be available on sale.

Acceptable Tax Planning

We may provide tax planning services, tailored to a client's individual circumstances, for the purpose of mitigating their UK tax exposure through the use of effective and reliable methods, acceptable to HM Revenue & Customs, in a non-aggressive manner.

We provide advice about UK direct personal taxes only (income tax, national insurance [NIC], capital gains tax [CGT] and inheritance tax [IHT]).

We do not:

- provide tax advice associated with UK indirect taxes (such as value added tax [VAT], customs duties, stamp duty land [SDLT] tax or stamp duty reserve tax [SDRT])
- provide UK corporation tax advice
- provide tax advice relating to any overseas tax jurisdictions
- design, promote, or condone structures or arrangements which exploit tax legislation artificially in order to obtain a tax advantage.

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