

Guide from
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A guide to Income from Property



A SIMPLE GUIDE TO INCOME FROM PROPERTY

This is a basic guide prepared by the Technical Advisory Service for members and their clients. It should not be used as a definitive guide, since individual circumstances may differ. Specific advice should be obtained.

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 £4,250. There is no limit to the number of rooms, but only £4,250 in total is exempt. This figure has remained unchanged since 1997-98. HMRC state that 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
- If the property is let furnished, 10% wear and tear allowance (i.e. 10% of net rental income, excluding rates, water rates and council tax if paid by the landlord) will be deductible for income tax.

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.

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)

Furnished holiday lettings receive certain favourable tax treatments normally afforded to trades, such as:

- Losses may be set off against general income and capital gains in the tax year of loss or the preceding tax year and ability to carry back losses in the first three four years of letting.
- 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.

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 (140 days for 2011/12 and earlier years or accounting periods beginning before 1 April 2012 (see further below)); and
- The property must be actually let to members of the public for at least 105 days in the year (70 days for 2011/12 and earlier years or accounting periods beginning before 1 April 2012 (see further below)).

The increase in the number of days required to meet the above conditions to 210 and 105 days does not apply for any twelve month period which does not coincide with the tax year and which begins before and ends on after 6 April 2012.

Extension to FHLs in the European Economic Area (EEA)

Until now, the FHL rules only applied to properties situated within the UK. However, HMRC have announced that they are to extend the FHL rules as including FHLs in any country within the EEA.

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.

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