Taking the stress out of being a landlord

Orange Genie Accountancy

Contractor and Small Business Specialists

A Tax Guide for Residential Landlords

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As a property investor you may incur tax liabilities whenever you buy, receive rental from or dispose of residential property. In this guide we'll explain the taxes that might affect your property business, allowable expenses and reliefs available.

With Making Tax Digital for Income Tax and Self-Assessment coming into play in April 2024, it is more important now more than ever for landlords to seek the advice and support of accountants.

Self-Assessment Obligations as a Landlord

If your rental income is below £1,000 per year then it is covered by your Property Allowance and is therefore tax free. However if your profit is between £2,500 and £9,999 (profit is after allowable expenses are deducted) or your income is in excess of £10,000 (income is the amount received before allowable expenses are considered) then you will need to declare all income and expenses from your rental property on the self-assessment tax return.

Within this tax return, you will also need to fill in the property pages. If the property is owned jointly, you would report your share of the rental income and expenditure. The joint owner would then report their share separately if required.

All your taxable income, not just rental income and expenditure should be reported via a self-assessment tax return. Once this is completed, if a shortfall of tax arises, payment needs to be made to HM Revenue and Customs. However, should you have paid too much tax, a refund can be requested from HMRC.

You should register for self-assessment by 5th October following the first tax year-end date where the rental income was first received.

Making Tax Digital

Making Tax Digital for Income Tax and Self-Assessment (MTD ITSA) requires that landlords earning more than £50,000 use MTD-compatible software to keep records and make submissions to HMRC on a quarterly basis.

The legislation will come into effect from April 2026.

Instead of a single annual self-assessment return, you'll need to submit quarterly updates from your accounting software to HMRC. By January 31st after the end of the tax year, you'll also need to send an end of period statement, in which you can make any adjustments, claim any reliefs and confirm that the information is complete and accurate.

While this will require a period of adjustment for many, in practice the requirement to keep your records in compatible software could increase your tax efficiency both in the short and long term - as long as you get the right advice and use the right software. Features like cloud file storage, receipt capture and bank connections could make your property investments much easier to run.

The £50,000 of income received to be mandated into MTD for ITSA applies per person, not per property.

Income Tax and Expenses

Tax on your rental income

Exactly how you pay tax on your rental income depends on your situation.

If you personally own the property:

Your rental profits are taxed at the same rates as income you receive from your employment, for the tax year 2023/2024 these rates are as follows:

- Personal Allowance - £0-£12,570 = 0%
- Basic Rate = £12,571-£37,700 = 20%
- Higher Rate = £37,701-£125,140 = 40%
- Additional Rate = £125,141 + = 45%

For example, if you are in full-time employment and earn £30,000 per annum and your rental profit for the year is £5,000, the rental profit will be taxed in the basic rate tax bracket at 20%.

If you're running a property business:

The tax rates applied when you own the property personally are the same for when you are running a property business. However, in addition to the tax as a property business you'll have to pay class 2 national insurance contributions (NIC) on profits over £6,725 at a rate of £3.15 per week (22/23). This applies to you if:

- being a landlord is your main job
- you rent out more than one property
- you're buying new properties to rent out

If your profits are between £11,909 and £50,270 in a year you will need to pay class 4 NIC at 9.73% (22/23), profits in excess of £50,270 incur class 4 NIC at 2.73% (22/23).

If your profits are under £6,725, you can choose to make voluntary class 3 NIC payments, for example to make sure you get the full State Pension.

If property is owned by a company:

It's accounted for in the same way as any other business income. Your Orange Genie accountant will be able to advise based on your specific situation.

The Furnished Holiday Letting Scheme

There are special tax rules for rental income from properties that qualify as a furnished holiday let.

However, you need to qualify as a Furnished Holiday Let by meeting the following criteria:

- Your property must be available for letting as furnished holiday accommodation letting for at least 210 days in the year
- The accommodation must be in the UK or European Economic Area and commercially let
- Accommodation is 'furnished' if the visitor is entitled to the use of furniture. There should be sufficient furniture provided for normal occupation
- The property must be commercially let as holiday accommodation to the public for at least 105 days in the tax year

There are benefits to declaring your property as a Furnished Holiday Let. The following reliefs would be available that aren't on normal residential lets:

- You can claim Capital Gains Tax reliefs for traders (Business Asset Rollover Relief, Entrepreneurs' Relief, relief for gifts of business assets and relief for loans to traders)
- You're entitled to plant and machinery capital allowances for items such as furniture, equipment and fixtures
- The profits count as earnings for pension purposes
- Apply mortgage interest relief The property must not be let for periods of 31 days or more for more than 155 days during the year

Rent-a-room relief

The Rent a Room Scheme lets you earn up to £7,500 per year tax-free from letting out furnished accommodation in your home. This is halved if you share the income with your partner or someone else. The tax exemption is automatic, so if you earn less than £7,500 you don't need to do anything. If you earn over the threshold you can opt into the scheme and claim the allowance on your tax return.

You can choose not to opt into the scheme and record your income and expenses on the property pages of your tax return instead. Your Orange Genie Accountant will be able to advise based on your specific situation.

Allowable Expenses to Reduce Your Tax Liability

When completing your tax return, you can deduct some of the costs associated with being a landlord from the profit you make. For example, you if made £10,000 in rental income and your allowable expenses totalled £3,000, you'd only pay tax on £7,000 profit.

However, there are strict rules on what you can claim as an allowable expense. For a cost to be allowable it must have come about exclusively for the purposes of renting out the property. That's why it's important to stay on top of your record keeping and keep all your receipts digitally. Here are some examples of what you might be able to claim:

General maintenance and repairs

There is a clear difference between property repairs and improvements. Improvements count against the gain on selling the property, but not as an expense against rental income. You could, for example, claim for the like for like replacement of a broken fixture, but not for an upgrade.

Utility bills

You can claim for bills that the tenants are not responsible for. This could include ground rent, council tax, gas and electricity and service charges if you're sub-letting.

Fees for services

If you hire someone to work in your property you can claim for their fees. This includes workers like gardeners, cleaners, plumbers and builders - as long as the work counts as a repair rather than an improvement.

Professional services

Services like accountancy, conveyancing, interior design and solicitor's fees relating to debt collection could all be claimed as allowable expenses.

MTD-compatible bookkeeping software will be an allowable expense if you pay for this separately from your accountancy fees.

Direct running costs

You can claim for general business costs like phone and broadband, office equipment and stationery. The costs of marketing your property, including fees to the letting agent, photography and advertising are also allowable.

Replacement of domestic items

If you supply domestic items like furniture, curtains, carpets, TVs, white goods or kitchenware, you can't claim for the initial cost of the item as an expense. You can, however, claim for the cost of replacing them. This relief is only available on items that have been provided solely for use by the tenant.

The new item must replace the previous item, which must no longer be available for use. If the original item is still available - even if it's in a bad state of repair - the new item will be considered to be an addition, and the cost will be seen as an initial cost, which cannot be claimed.

Likewise, relief is limited to like-for-like replacements. If a "better" item is supplied, relief is capped at the cost of replacing the original item. An element of judgement may be necessary here, particularly if the original item was purchased a long time ago.

Improvements versus repairs

As we've mentioned already, repairs to your property can be claimed as an expense, but you can't claim for improvements. Instead, the cost of improvements can be claimed against CGT when you come to sell the property.

For example, the cost of adding a conservatory for £30,000 wouldn't be put through as an allowable expense to reduce your rental profit, however it would go against reducing the gain on the property when you sell it.

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Insurance

All your landlord insurance policies are allowable, including buildings, contents, liability and cover for potential loss of rent.

Types of insurance to consider as a landlord

There are four main types of insurance you will need to cover your property investments.

Buildings insurance

This is to cover damages to the fabric of the building and permanent fixtures and fittings. The rule of thumb is that if something can't easily be picked up and taken away, it comes under your buildings insurance – so that's yes to kitchen cabinets and bathroom fixtures, and no to carpets and curtains. This insurance policy will be largely the same as the one you have on your home, but you'll need a policy that's aimed at landlords rather than owner-occupiers.

Contents insurance

This covers items that can be easily removed, like carpets, curtains and any furniture or kitchen appliances you provide. Even if you're letting the property unfurnished it's likely there will be some items that come under contents. Your policy will not cover your tenants' property, and they should arrange their own contents cover if required.

Public Liability

This covers legal costs and damages resulting from an accident that happens on the premises, for example if a loose bit of carpet causes a tenant to fall down the stairs.

Rent guarantee insurance

This covers your monthly rental income if your tenants do not pay. You can usually make a claim once your tenants are one month behind, and will continue to pay for a fixed period, usually between six and twelve months. This is different from loss of rent cover, which only pays if you are unable to let your property due to damage covered by your building's insurance.

If Your Property Makes a Loss

It's obviously possible for your rental income to be less than your allowable expenses, particularly if you've had periods when your property has been empty. You're not allowed to offset these profits against other sources of income, like pension income or dividends, but you can carry them forward to set against future profits from your UK properties.

Example:

If in the 2022-23 tax year, you received rental income of £8,000, but had expenses worth £10,000, you would record a £2,000 loss for the year.

If you went on to make rental profits of £5,000 in the 2023-24 tax year, you could deduct your previous £2,000 loss, so you'd only owe tax on rental profits of £3,000.

Other Taxes

Buying a Property - Stamp Duty

You pay Stamp Duty Land Tax when you buy residential property costing over £250,000.

The amount you pay depends on when you bought the property, how much you paid and whether you're eligible for relief or exemption. Your accountant will be able to give you advice on how to save on your SDLT.

Rates:

If you own more than one residential property after the purchase, as most landlords will, you will usually pay an additional 3% on top of these rates.

Property Value	SDLT Rate
Up to £250,000	Zero
£250,001 - £925,000	5%
£925,001 - £1.5 million	10%
Above £1.5 million	12%

Example:

If you own a house which is your main residence. On the 23 September 2022 you buy an additional residential property for £300,000.

On completion of the purchase, you own more than one property, so the SDLT you owe on the purchase will be calculated as follows:

3% on the first £250,000 = £7,500

8% on the final £50,000 = £4,000

Total SDLT = £11,500

Selling a Property - Capital Gains

If you sell any property other than your principal residence at a profit, you will usually have to pay Capital Gains Tax (CGT).

HMRC have recently confirmed that landlords who sell a property are required to file a CGT return as well as reporting the sale on their self-assessment.

From April 2020 landlords had to file and pay within 30 days of the sale. This was extended to 60 days in April 2021.

You'll need to file your CGT return using HMRC's UK Property Disposal Service. If you have questions about CGT, please contact us for advice.

Each individual is given a capital gains tax free allowance per tax year, this is one allowance to be used against all gains made in the year, the rates are as follows:

2023/2024 = £6,000

2024/2025 = £3,000

Discussing your plans to sell with your accountant could save you thousands, depending on timings and other gains in the year.

If you are selling a property that you once occupied prior to letting then there are reliefs available that your accountant can calculate for you.

You get full or partial relief for:

- the years you lived in the home
- the last 9 months you owned the home - even if you were not living there at the time
- any reason for periods adding up to 3 years
- up to 4 years if you had to live away from home in the UK for work
- any period if you were working outside the UK

The current rates of capital gains tax on the sale of investment companies by an individual is 18% if you are a basic rate taxpayer and 28% if you are a higher rate taxpayer. Capital gains tax is not paid by Limited Companies on the sale of a property, they would be charged corporation tax.

Principal Private Residence Relief

You do not pay capital gains tax on a property which you own and occupy as your main residence, this is called Principal Private Residence Relief.

If you are selling a property that you own and once occupied but now let, you will need to speak to your Accountant to discuss the reliefs available to you to reduce your capital gains tax on the sale of the property.

Selling a Property - Inheritance tax

When the inevitable happens and you pass your properties on this will form part of your estate, Inheritance Tax (IHT) is charged at 40% on the value of your estate over the threshold. The net equity in your investment properties will be included as an asset in your estate for IHT purposes.

The nil rate band is £325,000 and the residence nil rate is £175,000, the nil rate band increases to £500,000 if you're leaving your main home to your children or grandchildren. This can rise to £1 million for married couples.

Inheritance tax planning as a property investor

Your specific circumstances will affect your tax planning strategy, and we strongly advise that you discuss it in detail with your accountant before taking any action. That said, there are some things most property investors can do to reduce IHT liability.

- Make a will: without a will your assets will be distributed according to the intestacy rules, and may be liable to IHT that could otherwise have been avoided.
- Keep below the IHT threshold: The nil rate band and Main Residence Transferable Allowance together mean a married couple could pass up to £1 million worth of property free of IHT.
- Give assets away: Gifts given at least seven years before you die are free of IHT. If you die within seven years IHT is payable on a sliding scale – so acting early will potentially save money. You can also gift £5,000 free of IHT on the occasion of a child's wedding.
- Consider Capital Gains Tax (CGT): if you give away assets that have fallen in value since purchase, they can be passed on without attracting CGT.
- Place assets into a trust: assets placed into a trust will not form part of your estate on death and will avoid IHT. You could create a trust for your children when they reach the age of 18 for example. The use of an "interest in possession" trust may allow you to take an income from assets whilst protecting them from IHT.
- Take out life insurance: You can cover potential liability for IHT by taking out life insurance and placing the policy in a trust to ensure it's paid outside your estate.

Contact Orange Genie today:

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