

Income Tax

Income tax is payable each year based on the profit from rental property.

Tax Treatment of Expenditure

Some expenses incurred when letting a property are allowable for tax purposes, but others are disallowable; common examples are:

Allowable

- Advertising the property for let,
- Repairs to the property and general maintenance costs,
- Cost of services provided to tenants, such as utilities,
- Managing agents fees,
- Insuring the building and contents,
- Interest paid on any mortgage taken out to buy the property (but please see below for details of future restrictions)

Disallowable

- Renovation work and improvements made to the property, for instance replacing an item with one of a higher specification or carrying out any work which was accounted for by a reduced purchased price for the property.
- Capital repaid on any loan taken out to buy the property,
- Costs incurred whilst the property is not available for letting,
- Costs of purchasing/selling the property.

These lists are not exhaustive and we recommend that advice is sought regarding any expenditure incurred to ensure that the available tax relief is maximised.

Where an expense is not allowable for income tax it may be possible to obtain tax relief for these expenses when the property is subsequently sold: see "Capital Gains Tax" below.

There are additional rules regarding furnished holiday lettings, which may result in a claim for further deductions.

Mortgage Interest

From 6 April 2017, income tax relief on finance costs on residential properties will be restricted to the basic rate of income tax. The changes are being phased in over 4 years.

The effect of the changes is to gradually remove finance costs as an expense in calculating taxable rental profit. Instead, a tax reduction of 20% of the finance costs is given against the taxpayer's income tax liability.

The timetable for the changes in relief is as follows:

Tax year ending:	% of finance costs given as:	
	Rental expense	20% Tax reduction
5 April 2017	100%	0%
5 April 2018	75%	25%
5 April 2019	50%	50%
5 April 2020	25%	75%
5 April 2021	0%	100%

Capital Gains Tax

Capital Gains Tax may be payable when a property is sold.

In simple terms the gain is calculated as proceeds less the price originally paid for the property (or other appropriate base value in some cases). Additional relief is available for:

- Legal expenses,
- Estate agents fees
- Stamp duty.
- Any improvements to the property, including renovation work (assuming these costs have not qualified for relief under the income tax rules previously)

The amount of capital gains tax payable will depend upon the length of time that the property is owned and whether the owner has lived in the property at any time during this period.

Stamp Duty Land Tax

Purchases of additional residential properties completed on or after 1 April 2016 may be liable to higher rates of Stamp Duty Land Tax. The rates are 3% higher than the current SDLT percentages.

Administration

A self-assessment tax return will be required, including the supplementary pages for property letting and, if relevant, capital gains. Any tax liability arising is payable by the 31 January following the end of each tax year.

It is necessary to register for Self-Assessment by 5 October following the tax year of commencement of the letting business. Penalties apply for late notification. HMRC also charge penalties where the Tax Return is submitted late and additional interest where the tax is paid late.

[Find out more](#)

In addition to the above, our specialist property investors group can also assist you with other property related matters, including:

- The Furnished Holiday letting regime
- Landlords resident overseas
- Whether to hold your properties personally, or through a company
- Non Resident Capital Gains Tax
- Principal Private Residence relief calculations

For further information, advice and guidance please contact one of our specialists in the property investors group:

Catherine Hubbard - Senior Tax Manager
Telephone 01284 752313
Email catherinehubbard@whitingandpartners.co.uk

Richard Alecock - Associate
Telephone 01638 712267
Email richardalecock@whitingandpartners.co.uk

This is a general illustrative guide only and individual professional advice should be obtained on specific issues. Information is believed correct at time of publication, but may alter.

Bury St Edmunds Office

Greenwood House, Greenwood Court
Skyliner Way
Bury St Edmunds
Suffolk
IP31 7GY
Telephone: (01284) 752313
E-mail: bury@whitingandpartners.co.uk

Chatteris Office

Suite L22, South Fens Business Centre
Fenton Way
Chatteris
Cambridgeshire
PE16 6TT
Telephone: (01354) 694111
E-mail: chatteris@whitingandpartners.co.uk

Ely Office

George Court
Bartholomew's Walk
Ely
Cambridgeshire
CB7 4JW
Telephone: (01353) 662595
E-mail: ely@whitingandpartners.co.uk

Godmanchester Office

The Old Bakery,
49 Post Street,
Godmanchester,
Huntingdon,
Cambridgeshire,
PE29 2AQ
Telephone: (01480) 455575
E-mail: godmanchester@whitingandpartners.co.uk

King's Lynn Office

Norfolk House
Hamlin Way
Kings Lynn
Norfolk
PE30 4NG
Telephone: (01553) 774745
E-mail: kingslynn@whitingandpartners.co.uk

March Office

The Old School House
Dartford Road
March
Cambridgeshire
PE15 8AE
Telephone: (01354) 652304
E-mail: march@whitingandpartners.co.uk

Mildenhall Office

Willow House
46 St Andrews Street
Mildenhall
Suffolk
IP28 7HB
Telephone: (01638) 712267
E-mail: mildenhall@whitingandpartners.co.uk

Peterborough Office

Eco Innovation Centre
Peterscourt
City Road
Peterborough
PE1 1SA
Telephone: (01733) 564082
E-mail: peterborough@whitingandpartners.co.uk

Ramsey Office

108 High Street
Ramsey
Huntingdon
Cambridgeshire
PE26 1BS
Telephone: (01487) 813731
E-mail: ramsey@whitingandpartners.co.uk

St Ives Office

Raleigh House
14C Compass Point Business Park
St Ives
Cambridgeshire
PE27 5JL
Telephone: (01480) 468931
E-mail: stives@whitingandpartners.co.uk

St Neots Office

14 Eaton Court Road,
Colmworth Business Park,
Eaton Socon,
St Neots,
Cambridgeshire,
PE19 8ER
Telephone: (01480) 470755
E-mail: stneots@whitingandpartners.co.uk

Wisbech Office

12 & 13 The Crescent
Wisbech
Cambridgeshire
PE13 1EH
Telephone: (01945) 584113
E-mail: wisbech@whitingandpartners.co.uk