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McEwanWallace

Chartered Accountants
Business Advisers

Landlords

Tax relief for expenses

Chartered Accountants & Business Advisers

Payroll Bureau

Taxation

Wealth Management

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What are rental expenses?

When a landlord rents out a property, they can have a deduction from their profits for any expenses which were incurred wholly and exclusively for the purpose of their rental business.

The schedule included in this booklet can be used as a general guide to the most common expense categories, outlining what can be allowed as a deduction from profits for tax purposes. Any details of expenses incurred on a rental property must be provided with your tax return information to ensure that a deduction is made in the correct tax year.

Please note that the following notes are a guide only and specific advice should be sought when incurring expenses



Most common expenses

The following list is a general guide to the most common types of rental property expenses that we see and is not an exhaustive list of deductible expenses.

Advertising Expenses

Expenses of advertising for new tenants should be allowable. For example, the cost of placing adverts in newspapers. However, a landlord cannot deduct the cost of permanent advertising, for example permanent signs for displaying vacancy details.

Bad & Doubtful Debts

Rental income is taxed on what is due and not what is actually received by the landlord. However, a deduction with regards to unpaid rent by a tenant is allowed in respect of:

- ▲ A debt which is clearly irrecoverable
- ▲ A doubtful debt to the extent it is estimated to be irrecoverable; the deduction is the full amount of the debt less any amount the taxpayer expects to recover



Cost of Common Parts

The maintenance cost of a common area in a property consisting of several flats, for example a communal garden area or entrance hall, can be deducted as expenditure.

Energy Saving Items

A deduction is available for expenditure incurred up to 6 April 2019 on cavity wall or loft insulation, draught proofing, hot water and floor insulation. Without this specific provision, these items would be treated as a capital expense and so not deductible against rents.

Insurance

Premiums on insurance policies are allowable if paid for the purposes of the rental business e.g. contents insurance.



Restriction of Tax Relief on Finance costs (Applies only to landlords who are individuals, not companies)

2016/17 is the last year that full tax relief can be claimed for interest or other finance costs payable on loans used to buy residential property, or on loans to fund repairs, improvements or alterations. It has been announced that from April 2017 major changes will be phased in to significantly restrict the tax relief due.

The restrictions to the relief start in April 2017 and are phased in fully by 2020/21. Once the changes are fully implemented, just 20% of the mortgage interest paid will be deductible from tax liabilities.

In some scenarios, where the property has a high level of borrowings compared to the rents, it is possible that the impact will be that the tax liability may be greater than the net income.

Please contact us if you would like further advice.

Full relief may still be claimed for mortgage interest on properties meeting the Furnished Holiday Let criteria.

Legal & Professional Costs

Expenditure on professional fees of a revenue nature are deductible if they are incurred for the purposes of the rental business. For example, if fees are incurred on drawing up a lease of less than a year, then the associated costs are allowable. However, if drawing up a new lease of over a year, then the fees will not be deductible.

Other examples of allowable legal and professional costs would be; McEwan Wallace costs of preparing the rental accounts, costs of obtaining a valuation for insurance purposes or the costs of evicting an unsatisfactory tenant.

However if the fees are capital, meaning if they relate to a capital matter such as the purchases of property, they are not allowed against rents. Instead they are added to the cost of the property for capital gains purposes.

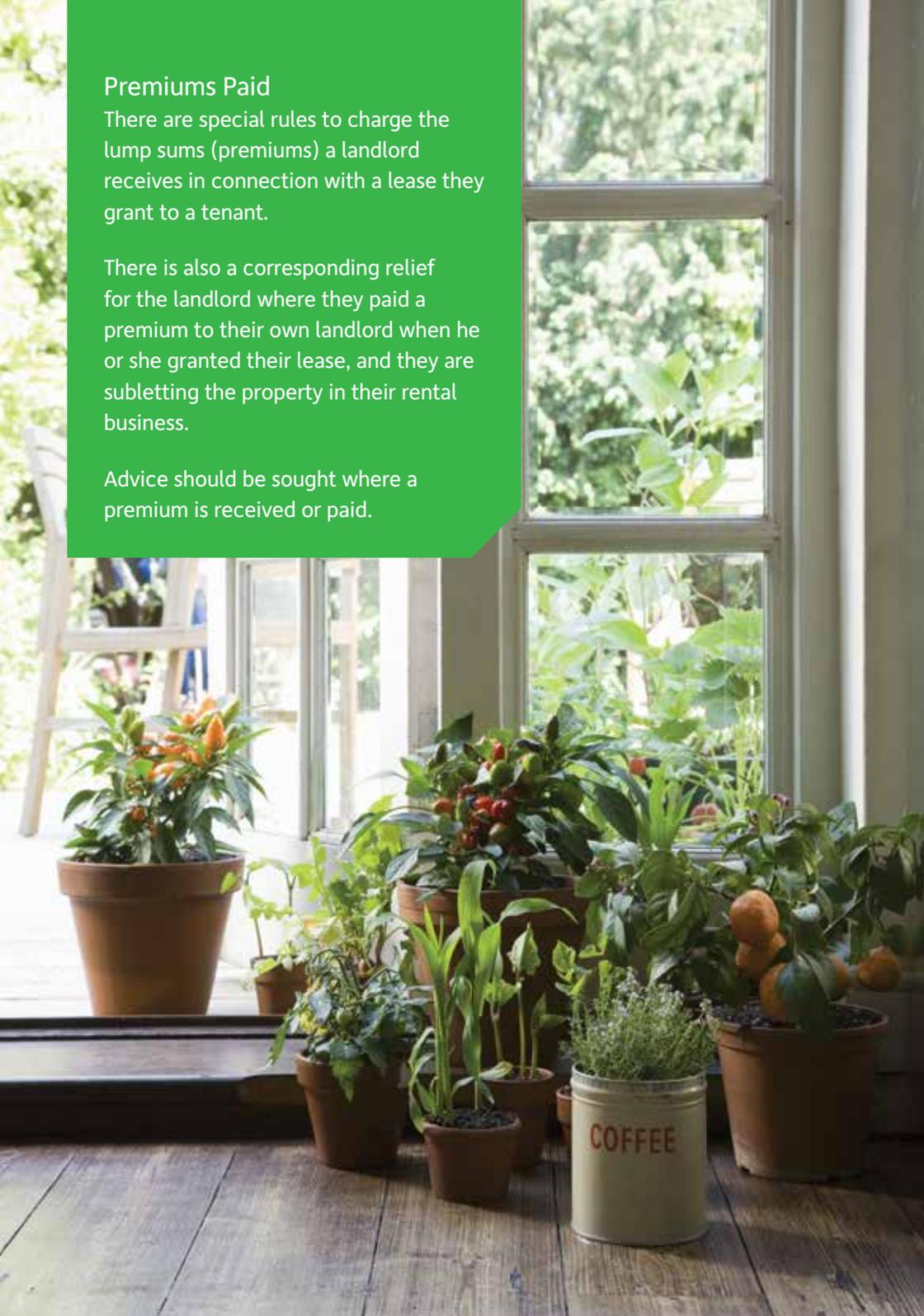


Premiums Paid

There are special rules to charge the lump sums (premiums) a landlord receives in connection with a lease they grant to a tenant.

There is also a corresponding relief for the landlord where they paid a premium to their own landlord when he or she granted their lease, and they are subletting the property in their rental business.

Advice should be sought where a premium is received or paid.





Cost of Providing a Service to Tenants

The cost of a landlord providing additional services can be claimed as an allowable deduction of their rental business provided the receipts they earn from them are also included as part of their rental business income. This would cover items such as cleaning or gardening.

Rates & Council Tax

If the agreement specifies that the charges are to be borne by the landlord it will normally be acceptable to deduct:

- ▲ Rates on business premises
- ▲ Water rates and water service charges
- ▲ Council tax - although it is uncommon for the landlord to bear this cost

Rent Collection

The cost incurred from collecting rent from a tenant is deductible as an expense from the rental business income. This covers items such as management fees paid.

Repairs

Normal repairs to the let property should be deductible for tax purposes.

This will cover the normal maintenance of the property such as broken windows, new locks and repairs to damages made by the tenant. Advice should be sought on larger repairs to ensure that the most tax effective treatment is obtained.



Renewals

With effect from April 2016, the 10% Wear & Tear allowance has ceased. It has been replaced with the Renewals basis which gives a deduction for the net cost of replacement of domestic items such as furniture, furnishings, appliances and kitchen ware in a let house. You cannot claim for the first purchase of a piece of equipment and any cash received for the old item must be deducted.

Travelling Expenses

Reasonable costs of travelling between different properties solely for the purposes of the rental business are an allowable deduction in computing rental business profits.

But the cost of travelling from home to the let property and back will only be allowable if the purpose in making the journey is exclusively a business one.

For further information
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Exemptions

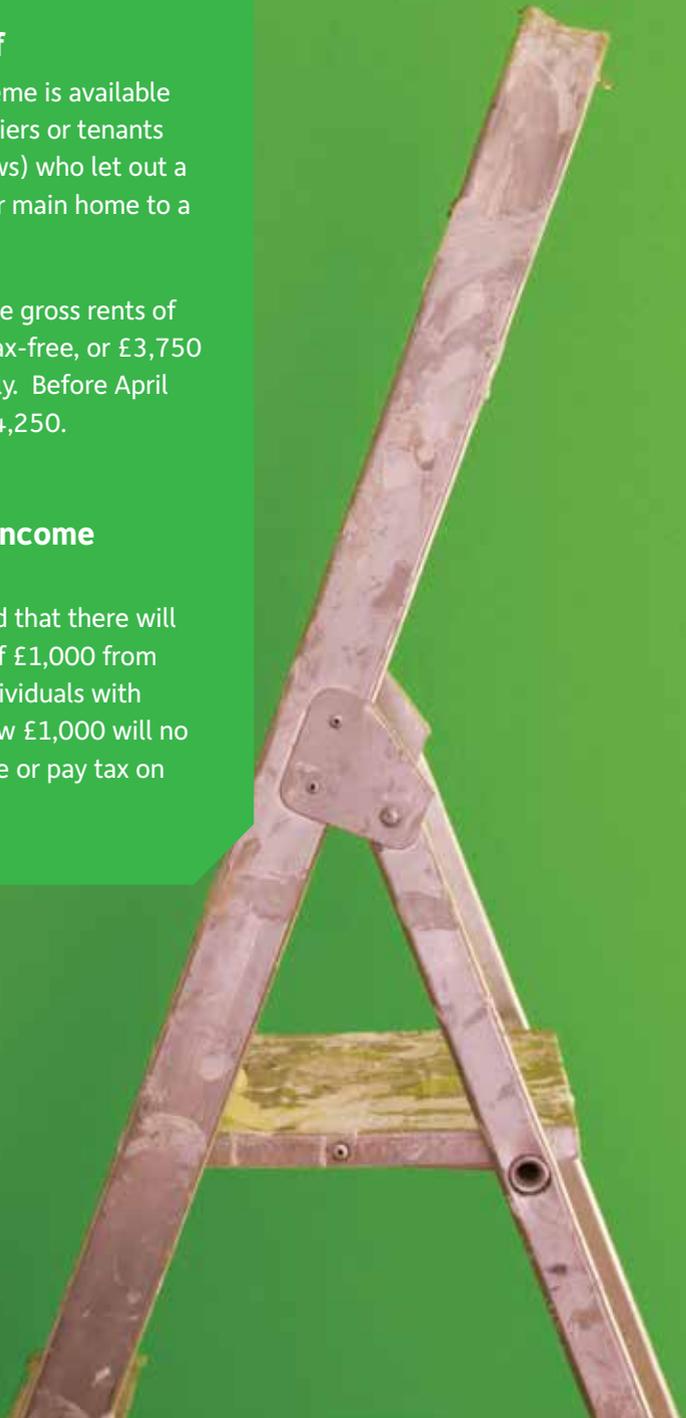
Rent a room relief

The Rent a Room scheme is available to those owner occupiers or tenants (where the lease allows) who let out a room or rooms in their main home to a lodger.

It allows you to receive gross rents of up to £7,500 a year tax-free, or £3,750 if you are letting jointly. Before April 2016, the limit was £4,250.

£1,000 property income allowance

It has been announced that there will be a new allowance of £1,000 from April 2017 so that individuals with property income below £1,000 will no longer need to declare or pay tax on that income.





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