

## 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:

**Philip Peters** - Partner  
Telephone 01284 752313  
Email [philippeters@whitingandpartners.co.uk](mailto:philippeters@whitingandpartners.co.uk)

**Richard Alecock** - Associate  
Telephone 01638 712267  
Email [richardalecock@whitingandpartners.co.uk](mailto: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](mailto: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](mailto:chatteris@whitingandpartners.co.uk)

**Ely Office**

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

**Peterborough Office**

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

**Ramsey Office**

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

**Wisbech Office**

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