

Airbnb

General guidance on the UK
taxation of rental income received
by individuals, including
Frequently Asked Questions

Disclaimer

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This guidance has been prepared only for the purpose of outlining the UK income tax and capital gains tax position for individual hosts who receive rental income from UK residential property using the services of Airbnb. This guidance does not include guidance in relation to non-individual hosts or income from non-residential property. It also does not include guidance in relation to UK Inheritance tax, Value Added Tax ("VAT") or Stamp Duty Land Tax or taxes which may be applicable in jurisdictions outside the UK.

The guidance notes are based on our understanding of the current legislation, practices and case law as at 8 February 2018. Subsequent changes to legislation could impact the validity of the advice.

The Finance (No.2) Bill 2017-19 is currently in draft form and progressing through the Parliamentary stages, therefore where these guidance notes refer to future legislative enactments they are subject to change.

Hosts are recommended to seek advice from their own tax advisor, should they have any questions or concerns about their own tax situation including their ability to claim any relief from UK income tax.

Please refer to the Responsible Hosting Page available on the Airbnb website at <https://www.airbnb.co.uk/help/article/1379/responsible-hosting-in-the-united-kingdom> for additional general information about hosting in the United Kingdom.

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1. Overview of taxation of rental income in the United Kingdom

1.1 Rental income received by an individual

Liability to income tax - Rental income received by an individual from a property located in the United Kingdom is subject to UK income tax, regardless of where the person in receipt of that income is treated as being resident for tax purposes.

In addition, individuals who are regarded as resident in the UK for tax purposes will also be liable to UK income tax on rental income from properties located outside the UK. In this situation the taxation of the rental income in the overseas jurisdiction should also be considered in addition to UK taxation.

The liability to UK tax on the rental income will be based on the profits of the rental business during the UK tax year (6 April to 5 April) and the basis on which the profits are calculated is outlined below.

For the purposes of filing a UK tax return the profits of UK rental properties must be calculated separately from the profits of properties located outside the UK and where a UK tax return is required they must each be reported separately. Please see Section 5 and Appendix D.

Rent-a-room relief - Please refer to Section 3 for further information in relation to this relief.

Rental income from UK properties may be exempt from tax in the UK where rent-a-room relief applies. In broad terms, this applies to profits from furnished accommodation in an individual's only or main home if the gross receipts do not exceed a specific amount during the UK tax year (currently £7,500 but prior to 5 April 2016 the limit was £4,250. Limited relief may be available if rents exceed the limit and further details of this are included in Section 3.

However, a number of conditions must be met in order to claim rent-a-room relief. Where for any tax year exemption from income tax can be claimed as a result of rent-a-room relief the information below regarding the taxation of property income may not be relevant to that particular property.

As discussed in Section 3, there is currently an open consultation into the effectiveness and use of this relief so it could potentially be subject to future change.

April 2017 - Exemption from income tax for profit by 'micro-entrepreneurs'

From 6 April 2017, a new £1,000 allowance for property income has been introduced. Individuals are able to either deduct the allowance from their relevant gross income when calculating their taxable profit, or deduct their expenses as usual. If a property is jointly owned with others, each owner is eligible for the £1,000 allowance against their share of the gross rental income.

Individuals with property income below £1,000 no longer need to deduct or pay tax on that income. This allowance will not apply in addition to relief given under the rent-a-room relief legislation (see section 3).

Furnished Holiday Lettings - Please refer to Section 4 for further information

Rental profits in the UK are generally regarded as investment income but where a property qualifies as a 'Furnished Holiday Let' (FHL) then some of the tax advantages normally only available for trading businesses may be claimed. In view of the conditions which must be met to qualify for this treatment it is unlikely to be available in relation to a property occupied by a host as their private residence but may be applicable to hosts who receive rental income from a second home.

Section 4 provides details of the conditions which must be met to qualify as FHL and the further tax reliefs that can be claimed that differ from an ordinary property business. Where a property qualifies as a FHL it must be reported separately on a UK tax return. Please see Section 4 and Appendix D.

UK property income is subject to tax in accordance with legislation contained within Part 3 of the Income Tax (Trading and Other Income) Act 2005.

Calculation of taxable rental profits from 6 April 2017 - For UK tax purposes, rental profit should be calculated on a 'cash basis' where total turnover (gross rents) received is below £150,000 unless the accruals basis (see below) is elected.

Prior to 6 April 2017 the cash basis was not available for rental income. Rent accrued was the gross amount of monies due (before any expenses are deducted) from the letting of any property which may not necessarily have been the actual amount of rent received in the tax year. From 6 April 2017 the 'cash basis' method calculates your rental profit based on the actual cash received and expenses paid during the tax year. However, an election can be made to calculate rental profit using the 'accruals basis' in accordance with Generally Accepted Accounting Practice (GAAP).

For example, using the 'cash basis', if rent that was accrued during March 2018 is not actually received until May 2018, it is subject to tax in the tax year ended 5 April 2019.

Where total turnover (gross rents) received is in excess of £150,000, rental profit should be calculated in accordance with Generally Accepted Accounting Practice. This method was used prior to 6 April 2017.

For example, using the accruals method, if rent that was accrued during March 2018 is not actually received until May 2018, it is subject to tax in the tax year ended 5 April 2018.

Example -

On 3 March 2017, Emily requested to book Sam's UK listing for a trip lasting 30 days and for occupation to commence on 3 April 2017 and provided Airbnb her payment details. On 4 March 2017, Sam accepted Emily's book request and Emily's payment of £3,000 was made to Airbnb. On 3 April 2017, Emily checked in to Sam's property, so Airbnb released the rental amount, less the Airbnb fee, to Sam 24 hours later on 4 April 2017.

If Sam is an accrual basis taxpayer, the rental income will be subject to tax by apportioning the rent received between the period of occupation within the tax year to 5 April 2017 (i.e. 2/30 days) and the period of occupation within the tax year to 5 April 2018 (i.e. 28/30 days). If Sam is a cash basis payer, the whole rental income amount will be subject to tax in the tax year ended 5 April 2017 (i.e. the year the cash is received).

Rental income can also include monies accrued for any ancillary goods or services that are provided under a rental agreement. For example, items such as breakfast, utilities (such as WIFI/telephone) etc. would be treated as rent.

Taxable rental profits are the gross amount of rents received, less allowable expenses paid, based on receiving gross rents below £150,000. If the 'accrual basis' has been adopted, or gross rents received are in excess of £150,000, rental profit should be calculated on the basis of income and expenses receivable and payable in the tax year rather than income received and expenses paid. For example, a host may incur repair expenses on 31 March 2018 but the payment is not made until 30 April 2018. In this case, expenses would be available to be included against the rental income within the tax year ended 5 April 2019 since the host is a cash basis taxpayer.

Where the allowable expenses are greater than the gross amount of rent accrued, a property loss, for tax purposes will arise. Please see Section 1.7 for the position in relation to losses.

A separate rental computation is required for each property, however the total net income and losses per property are then added together for tax purposes to arrive at the total taxable rental profits for the year. As discussed above the profits of properties situated in the UK should be calculated separately from profits of properties situated outside the UK.

All income from UK properties should be calculated on the same basis, this being either the cash basis or accruals basis. However, as profits from overseas properties are calculated separately from profits of UK properties, the basis of calculating the profit can be different from that chosen for UK properties.

Properties situated outside the UK - Where an individual who is regarded as resident in the UK for UK tax purposes is in receipt of rental income from a property situated outside the UK then the individual will be required to report the overseas rental profits in a UK tax return.

An individual who is regarded as resident but not domiciled in the UK for UK tax purposes may be able to consider a claim for the remittance basis of taxation so that the profit from properties situated outside the UK is not subject to UK tax, to the extent that it is not remitted to the UK (see Appendix B for a more detailed explanation of these terms).

1.2 Where to obtain information from Airbnb

An Airbnb hosts can refer to the Airbnb [Help Centre article at https://www.airbnb.com/help/article/304](https://www.airbnb.com/help/article/304) as a guide to accessing their reservation and transaction history to calculate their gross rental income payable for any particular period. Please note the transaction history reports the start date of each reservation. Additional reservation details can be found at https://www.airbnb.com/my_reservations.

1.3 Expenses that can be deducted to calculate taxable rental profits

As outlined above, taxable rental income is the gross amount of rent payable less any allowable expenses.

In general, a tax deductible or "allowable" expense is one that has actually been incurred wholly and exclusively for the benefit of the property business and is not regarded as capital in nature. Hosts should also note that only those expenses incurred in respect of the period the property is let may be claimed (see 1.5 below). Also where a property is not solely let (i.e. where a host also occupies the property as their residence either partly in space or time in the year), expenditure that is incurred for the property as a whole would need to be apportioned. HM Revenue and Customs could potentially challenge whether a claim for expenditure is truly wholly and exclusively for the benefit of the property business if the expense has elements of private use. However, HMRC will usually accept that if an expense has a use in the property business, then a just and reasonable apportionment can be agreed but care is required.

Basis of a claim for expenses

Capital expenses - In very high level terms, a capital expense is the acquisition of the property itself and any expenditure that would improve the property beyond its original condition. Therefore, any improvements e.g. a new extension or conservatory that did not exist previously would not usually be regarded as an allowable expense for the purpose of calculating taxable rental income.

Any expenditure incurred on the purchase of the property and any improvement expenditure made during ownership, should be available to be deducted from the sale proceeds for capital gains tax purposes and therefore detailed records should be kept and specific advice should be sought.

Expenses eligible for tax relief

It is not possible to set out all expenses that may be deductible and the qualifying conditions referred to above must be applied to each item of expenditure on a line by line basis to determine whether it is eligible as a deduction. Examples of expenses that relate to the period rented can potentially be deducted in calculating taxable rental income (or loss), are as follows:

- Rates payable by the host in respect of the property, e.g. council tax paid to a local authority,
- Rent payable by the host in respect of the property, where leased rather than owner occupied,
- The cost of any goods or services provided by the host as part of the rental agreement, e.g. gas, electricity, TV, internet, utilities, bin collection etc.
- The cost of maintaining the property, e.g. cleaning, laundry etc.
- The cost of managing the property, e.g. legal fees and accountancy fees incurred by the host in connection with the letting of the property. The Airbnb service fee should also qualify as a deductible expense,
- The cost of repairs, e.g. fixing broken windows, doors, furniture and washing machines etc.
- The cost of insuring the property e.g. building and content cover, however for homeowners, premiums paid in respect of mortgage protection policies linked to the rental property are disallowed.

If you also own the home you are listing on Airbnb, the following additional expenses may also be considered:

- Finance costs, including mortgage interest incurred on the purchase, repair or improvement of the premises being rented (subject to the paragraphs below). Finance costs for this purpose includes incidental costs incurred in obtaining loan finance, such as arrangement fees, refinancing fees and legal costs. It should be noted however that for mortgage repayments, only the interest element is allowable as a deduction so that the capital repayment is not an allowable expense. However, see also section 1.6 regarding interest not allowed where the property is not wholly let.
- There is however a change to the basis of the tax relief available for finance costs from 6 April 2017 (see Appendix A). This will represent a significant change to the availability of income tax relief for finance costs, including mortgage interest.
- Only the mortgage interest accruing during the period the property is let is actually eligible for tax relief.

Interaction with rent-a-room relief - Where exemption is available as a result of rent-a-room relief being applicable, the deduction of expenses does not need to be considered. Further information in relation to this relief is available in Section 3.

1.4 Capital allowances and wear and tear allowance

Where a property is let fully furnished, there is limited availability to obtain tax relief on the acquisition cost of furniture and fixtures that are provided with the property.

Capital Allowances

Capital allowances are a tax allowance which provides tax relief to the host for the depreciation in value of assets that the host acquired. However, unless a property qualifies for treatment as a Furnished Holiday Letting (Section 4 and Appendix D) it is not usually possible to claim capital allowances in respect of residential properties. Where applicable capital allowances can only be deducted for specific items of expenditure incurred in a property business. These include energy

saving machinery, environmentally beneficial machinery and solar panels. These items are subject to qualifying conditions and it is recommended that a host takes specialist advice to ensure that the expenditure can be claimed.

Renewal (i.e. replacement cost not the initial purchase) of small capital items prior to 6 April 2016 – relief was available in certain limited circumstances, for the cost of renewing items of a capital nature that are of a relatively low value, have a short useful economic life and would need to be regularly replaced, to be allowed as a deduction when calculating the taxable rental profits. No deduction was available for the initial cost of such items when this basis was adopted.

From 6 April 2016 an alternative ‘Wear and Tear’ allowance remains available to provide relief in relation the replacement of certain items (see below). The wear and tear allowance that was in place pre 6 April 2016 was abolished, as explained below.

Wear and Tear Allowance/Replacement domestic items relief

For residential fully furnished properties, there have been significant changes to the relief that can be claimed instead of capital allowances to reflect the replacement of furnishings.

Position prior to 5 April 2016

‘Wear and tear allowance’ was available pre 6 April 2016 instead of claiming relief for replacing or repairing items (see above) such as utensils and fixtures and fittings (e.g. furniture, kitchen appliances, etc.) provided by a host for the purposes of furnishing rented residential accommodation. The allowance could have been claimed each year up to the 2015/16 tax year as a deduction when calculating the taxable property income.

The wear and tear allowance was available only where the rental property was a dwelling house, was subject to letting and the dwelling house contains sufficient furniture, furnishings and equipment for normal residential use. HM Revenue and Customs will generally accept that a dwelling house is ‘furnished’ if it is possible to ‘live’ in the property and be self-sufficient.

The availability of a wear and tear allowance must therefore have been considered carefully in light of Airbnb hosts’ specific circumstances.

The wear and tear allowance that could have been claimed each year prior to 6 April 2016 was equal to 10% of the ‘relevant rental amount’. The relevant rental amount was calculated by reference to rents from the furnished property less any expenses which would normally be borne by a tenant guest e.g. utilities, council tax etc. Therefore a host could deduct the amount of this expenditure from the rents for the period occupied by their guest when calculating the wear and tear allowance available. The 10% deduction was available even if the host did not incur any expenditure on furnishings.

As stated above, this allowance has now been abolished with effect from 6 April 2016.

Position post 6 April 2016

The wear and tear Allowance for fully furnished properties has been replaced from 6 April 2016 with a relief that enables all landlords of residential dwelling houses to deduct the costs they actually incur on replacing furnishings, appliances and kitchenware in the property.

The relief given is for the cost of a like-for-like, or nearest modern equivalent, replacement asset, plus any costs incurred in disposing of, or less any proceeds received for, the asset being replaced. The annual 10% deduction that was available pre 6 April 2016 is no longer allowed meaning hosts will only receive relief where they actually incur expenses on furnishings.

This deduction is not available for furnished holiday lettings because capital allowances will continue to be available for them.

1.5 Pro-rata expenses and private use adjustment

The basis on which expenses may be deducted when calculating the taxable rental income is outlined in 1.3 and 1.4 above. It is important for hosts to note however that only allowable expenses incurred in respect of the period the property is let can be deducted in calculating taxable rental income. Any expenditure in relation to private occupation of the property may not be claimed.

Pre-letting expenses (with certain exceptions) and post-letting expenses are not allowed as deductions. Allowable expenses incurred between lettings are allowed as deductions but only to the extent that they are directly related to the period in which the accommodation is let.

Therefore, where on-going expenses such as electricity, gas etc. are incurred only the portion relating to the period the property is let can be deducted. It will be necessary to pro-rate the expense on a reasonable basis to calculate the portion relating to the period the property was rented or when occupied by the owner. It will also be necessary to keep records of this calculation.

If only part of the premises is let, then only the expenses incurred on that part of the premises that is let are allowed as a deduction in calculating taxable property income. For example, if a room or rooms are let in a private house and the rental income received is greater than the limit allowed under rent-a-room relief, the rental income will be taxable. In order to calculate the taxable property income, it will be necessary to apportion, on a reasonable basis, any 'household' or 'shared' expenses between the part of the premises that is let and the part that is not let.

Example:

Mike rents a two bedroom apartment in London and the spare bedroom is available for rent on Airbnb for part of the year. The listing provides breakfast, access to Mike's bike and car, amenities including WIFI, satellite TV and toiletries.

Mike also cleans the apartment and room between bookings and also provides tourist information and helps guests with restaurant, taxis, theatre reservations etc.

When Mike looks at the amount of expenses that are available to be set against his rental income, he will be able to claim for the specific expenditure that is incurred relating to the room which is let e.g. toiletries, cleaning and food items. However, Mike would need to pro-rate the amount claimed for expenses that relate to the whole apartment and which would ordinarily be incurred by Mike but are also incurred by the tenant by reason of the letting. Examples of this would be his rental cost, utilities, WIFI and TV charges.

The pro-rated expenses should be calculated on a just and reasonable basis based on the occupancy of the tenant.

1.6 Expenses that cannot be deducted

For tenant hosts and hosts who are homeowners the following are examples of expenses that cannot be deducted in calculating taxable property income (or loss). This is not exhaustive and the qualifying conditions referred to above must be applied to each item of expenditure to determine whether it is eligible as a deduction.

- Pre-letting expenses with certain exceptions. Pre-letting expenses are those that are incurred prior to the date on which the premises is first let,

Certain pre-letting expenses may however be allowed as a deduction. This may include minor repairs and decoration, advertising fees and certain legal expenses incurred in preparation for letting but each situation should be considered carefully,

- Post-letting expenses. Post-letting expenses are those that are incurred after the final letting,
- Expenses incurred between lettings where the premises are not available for letting or where the host occupies the premises during that period between lettings,
- Capital expenditure incurred on additions, alterations or improvements to the premises unless incurred on fixtures and fittings and a wear and tear allowance/replacement domestic items relief is available (see 1.4),
- Expenses incurred on lettings that are exempt under the provisions of rent-a-room relief,
- An individual cannot claim a deduction for their own labour. However, expenses that may be incurred by the landlord in the course of their own management of the property may be allowed e.g. travel costs for property visits, telephone and administration costs for the arrangement of lets, etc.

For hosts who own the home you are listing on Airbnb, the following are additional examples of expenses that cannot be deducted in calculating taxable property income (or loss). Interest accruing in the period 1) following the purchase of a premises up to the time a tenant enters into a lease and occupies the premises, and 2) after the final letting,

- A disallowance of interest may be required where the property is the host's own residence and only part of the property is let

1.7 Rental losses

A property loss for income tax purposes will arise where allowable expenses of a property are greater than the gross rents received. A loss arising on one property may be set against the taxable profits arising from other rental profits in the same tax year.

Where the property loss is not utilised in a year of assessment it can be carried forward to future tax years to reduce taxable rental income in future years. The property loss can only be used to reduce taxable property profits, for example, it cannot be used to reduce taxable employment income. The property loss must be used against the next available UK property profit.

If there are losses from overseas property, they are calculated separately (see 1.1 above) from that of UK property and can only be utilised against the next available overseas property profit.

If the property qualifies as a Furnished Holiday Letting (See Section 4) the losses must be calculated separately and may only be utilised or carried forward against profits from the same or other properties which qualify as Furnished Holiday lettings. Prior to April 2011, it was possible to claim relief for FHL losses against total taxable income of the same tax year or the previous tax year. This relief however is no longer available.

An individual in receipt of UK rental income will still need to file an annual income UK tax return even where a property loss arises.

1.8 Documentation to be retained

Full and accurate records of all lettings must be kept for tax purposes to support the details included on the tax return. All supporting documentation in respect of those records must also be kept, e.g. details from Airbnb, mortgage interest details, invoices, bank statements, cheque stubs, receipts for all expenses incurred etc. In general, records must be retained for six years.

Receipts etc. do not need to be submitted with the annual income tax return. However, HM Revenue and Customs may request copies of receipts etc. to support the taxable property income an individual declares on their annual tax return if an enquiry is made into the return.

1.9 Reporting rental income on a tax return

Individuals in receipt of rental income from UK land and property will need to file an annual tax return to report this taxable income to HM Revenue and Customs.

Where an individual is in receipt of property income and that property income is not exempt from tax under the provisions of rent-a-room relief (e.g. because the conditions necessary to claim rent-a-room relief are not met), then the individual must complete the appropriate section of the UK tax return to provide details of the rent and allowable expenses together with the taxable profit or loss.

If an individual is not required to file a UK tax return in respect of other sources of income and gains and the rental income is eligible for exemption as a result of rent-a-room relief (Section 3) in a year of assessment then it may not be necessary to file a UK tax return. If a UK tax return is required for other sources of income and gains then it will be necessary to include details of rental income and expenses on the tax return and claim rent-a-room relief. However, see section 5 concerning the requirements to file a UK Self-Assessment tax return, as you may be required to file a tax return for other reasons. Where hosts are in doubt as to whether a UK tax return should be filed then they should consider filing a tax return to ensure that a full disclosure of their position is made to HM Revenue and Customs.

Please refer to Appendix D as a guide for reporting taxable property income on an annual tax return.

1.10 Jointly owned property

Where an individual owns a property jointly with someone else, other than their spouse or civil partner (where ordinarily it is deemed to be split 50/50), it is necessary to apportion the rental income (and allowable expenses) between them based on each individual's percentage ownership of the property. For example, where a brother and sister own a rental property (50:50), the gross rents received and expenses incurred must be split equally between each individual. Each individual will be required to report their portion of the taxable property income on their own individual tax return.

Where a property is owned jointly by a married couple or by civil partners then they are generally treated for UK income tax purposes as beneficially entitled to the income from the property in equal shares even if the actual ownership is different. In this situation it may be possible for the couple to make an election for the actual split of ownership to apply. The couple would need to make a joint formal election to vary the proportions and inform HM Revenue and Customs of this using a Form 17. Hosts are recommended to take specialist advice if they consider this may be applicable to them.

Each spouse or civil partner will be required to report their portion of the taxable property income on their own individual UK tax return.

1.11 Jointly rented property

Where an individual rents a property jointly with someone else and then sub-lets the property, for example via a listing on Airbnb, it is necessary to apportion the rental income (and allowable expenses) between them based on each individual's percentage interest of the underlying lease. The basis of the split should be done in the same way as described in 1.10 above.

1.12 Applicable tax rates

The tax rates applicable to property income are the same as those applicable to other sources of non-savings income.

The tax rates applicable to taxable property income will depend on the level of other taxable income (i.e. non-rental income) an individual receives during the tax year. The taxable rental income will be added to the hosts other UK taxable income to calculate the total tax liability. For example, where an individual's other taxable income in the year ended 5 April 2018 exceeds their personal allowance,

then depending on the level of taxable income, their taxable property income may be subject to income tax at 20% up to £33,500, 40% up to £150,000 and 45% thereafter.

Taxable property income received in the 2018/19 tax year may be subject to income tax at 20% up to £34,500, 40% up to £150,000 and 45% thereafter. The personal allowance for the 2018/19 tax year will be £11,850.

Please refer to Appendix C for confirmation of the UK income tax rates for the tax years ended 5 April 2018 and 5 April 2019.

It must also be noted that an individual with taxable income, including rental income, exceeding £123,000 in 2017/18 (£123,700 in 2018/19) will see the loss of their personal allowance and if taxable income is between £100,000 and £123,000 (or £123,700 in 2018/19), there will be a loss of £1 of personal allowance for every £2 of income over £100,000.

1.13 Sample rental computation – home owner host, rent a room relief not available

Miranda owns a home in Manchester. This home is not her only or main residence (so rent-a-room relief is not available) but is a second home for when she is in the North of England.

She occasionally spends time with her parents abroad and rents out her Manchester home for temporary periods, e.g. 1 week, 1 month and various weekends. In the year ended 5 April 2018 this accounted for a period of 3 months in total. The total gross rents which were due and received were £6,600 for the 3 months during which the property was rented.

Miranda also hires a cleaning and key exchange service to help with guest turnover. So that her guests are made to feel welcome, she arranges that a gift basket is provided to every guest and that her guests have access to full amenities in the local community (as the property is within a private residential area),

Miranda incurred the following annual expenses in 2018 in respect of the property:

1. Insurance of £550,
2. Mortgage interest of £5,000,
3. Council Tax of £585,
4. Cleaning and key exchange costs during the period the property was rented of £300, and
5. Repairs at the end of the period the property was rented due to damage caused by guest of £570.
6. The purchase of a new fridge freezer for £400 as the old fridge freezer has broken.

Miranda has kept a record of the total gross rents received and has all supporting documentation, e.g. confirmation of mortgage interest incurred in 2018 from her Bank, receipts for expenditure incurred etc. Miranda is single and her only other source of income is from her employment. This income is subject to tax at source via PAYE.

Miranda's rental computation:	£
Gross rental income	6,600.00
Less allowable expenses:	
Annual Insurance*	137.50
Annual Mortgage interest**	937.50
Cleaning and key exchange***	300
Repairs***	570
Council Tax****	146.25
Replacement fridge freezer*****	100.00
	(2,191.25)
Net property income	£4,408.75
Tax charged at 40% (£4,408.75 * 40%)	£1,763.35
Tax credit on restricted interest at 20% (£312.50 * 20%)	(£62.50)
Total tax payable	£1,700.85

Miranda's employment income exceeds her personal allowance and basic rate band for income tax. Therefore, her net taxable property income will be subject to income tax at marginal rates as shown above.

*Only the part of the expense relating to the period the property was rented can be claimed as a deduction. As the property was only rented for 3 out of 12 months, the insurance should be apportioned on this basis. Therefore, £550 * 3/12 = £137.50

** As the property was rented for 3 out of 12 months, the restricted mortgage interest should be apportioned on this basis. Therefore, £5,000 * 3/12 = £1,250. Also, the deduction for interest accruing on loans used to purchase, improve or repair rented residential property will be restricted as the new provisions concerning finance costs came in to effect from 6 April 2017. In the 2017/18 tax year, a deduction for finance costs is restricted to 75% of costs, with a basic rate tax credit given for the remaining 25% (see Appendix A). This amount will be therefore restricted to 75%, equating to a deduction of £937.50 followed by a tax credit of £62.50 (£312.50 * 20%).

***The cleaning/key exchange services and repairs expenses relate directly to the rental of the property. As such, the full amount of these expenses can be claimed as a deduction.

****The Council Tax is allowed as a deduction, but only to the extent that it relates to the period the property was rented. Therefore £585 * 3/12 = £146.25.

***** The wear and tear allowance has been replaced by the replacement of domestic items relief, therefore the claim for the replacement cost of the fridge freezer can be made instead of a 10% wear and tear deduction. However, this claim would be restricted to 3/12 of the cost as the use is not wholly and exclusively for the rental of the property.

The above example is prepared on the basis that rent-a-room relief is not applicable. Please refer to Section 3 for guidance on the conditions required to claim rent-a-room relief.

In 2018/19, on the assumption that Miranda's rental income and expenses were similar and her marginal tax rate was the same as in 2017/18, the change in the finance cost restriction would cause an increase in her tax liability as follows:

Net taxable property income in 2017/18	4,408.75
Add: 25% extra finance cost restriction in 2018/19	312.50
Miranda's net taxable property income	<u>4,721.25</u>

1.14 Sample rental computation – tenant host, rent a room relief not available

Paul and his wife Sarah rent a 3 bedroom home in Brighton which is their only or main residence. However, the property has an annex which is separate to the main house, which previously was occupied by Paul's dependent relative but is now empty. They now list this annex on Airbnb for city breaks/business users/holiday use. They charge a nightly rate of £75 per night per person. The property does not qualify under rent a room relief, nor as a furnished holiday let.

The annex has one bedroom with a living area and kitchen and bathroom facilities. Paul and Sarah ensure that the fridge is stocked with essential food items (breakfast items, milk, and bottled water) and a welcome bottle of wine/beer. They also ensure that the property is cleaned after each listing and provide information regarding local restaurants and transport. Also as Paul enjoys watersports and the property is close to the beach, they provide items for their guests so that guests can enjoy the local facilities e.g. children's toys, wetsuits etc. with unlimited use.

In the year ended 5 April 2018, the property was available to rent for the whole year and the gross rents which were due and received were £18,000.

Paul and Sarah incurred the following annual expenses in respect of the annex only:

1. Rent of £6,000,
2. Council tax of £1,023,
3. Cleaning after rentals of £1,000,
4. Food and beverages of £1,000,
5. Repairs including replacement items of crockery, bedding etc. £675,
6. Utilities including gas, electricity £1,650,
7. Telephone, Internet and satellite TV subscriptions £1,200

Sarah has recorded all of the rents and expense payments and has kept all receipts and invoices for future reference. She has been able to identify and clearly record the expenses that relate to the annex only compared to expenses for both the house and the annex. Paul's other income from employment is around £80,000 gross so he is expected to be a higher rate tax payer. Sarah's other income is also from employment but as she works part time, her income is £20,000 and so is expected to be a basic rate tax payer.

Paul and Sarah's rental computation:		£
Gross rental income		18,000
Less allowable expenses:		
Rent	6,000	
Council tax	1,023	
Cleaning	1,000	
Food and beverages	1,000	
Repairs	675	
(fully allowable as only relating to the annex)		
Utilities	1,650	
(fully allowable as only relating to the annex)		
Telephone, internet and TV	1,200	<u>(12,548)</u>
Net taxable property income		<u>5,452</u>
<p>As the property is rented jointly by Paul and Sarah (in the absence of any elections to the contrary), the taxable property income is split equally between them i.e. £2,726.</p> <p>Paul's employment income exceeds his personal allowance and basic rate band for income tax. Therefore his net taxable property income will be subject to income tax at his marginal rate. His tax liability is as follows:</p> <ul style="list-style-type: none"> ▶ Income tax = £1,090.40 (i.e. £2,726 @ 40%) <p>Sarah's employment income exceeds her personal allowance but does not exceed the basic rate band for income tax. Therefore her net taxable property income will be subject to income at her marginal rate. Her tax liability is as follows:</p> <ul style="list-style-type: none"> ▶ Income tax = £545.20 (i.e. £2,726 @ 20%) <p>The above example is prepared on the basis that rent-a-room relief and furnished holiday letting ("FHL") is not applicable. Please refer to Section 3 and 4 for guidance on the conditions required to claim rent-a-room relief and the conditions for a property to qualify as a FHL.</p>		

Please refer to Section 5 and Appendix D for further information in relation to the completion of the annual tax return.

2. Taxation of capital gains in the United Kingdom

2.1 Capital Gains Tax

As a rental property is a chargeable asset for UK capital gains tax (CGT) purposes then CGT must be considered whenever a rental property is disposed either by sale or gift. A calculation of the capital gain or loss will be required. Where the property has been occupied by the owner host as their main residence then exemption from capital gains tax is generally available on any capital gain arising.

An outline of the exemption available for the disposal of the host's main residence is set out below. If the property has not been occupied as a main residence then a host will need to consider the capital gains tax position including the reporting on a UK tax return and take specialist advice if necessary. This will apply to hosts who are regarded as resident in the UK for tax purposes and also for hosts who are regarded as not resident.

Principal Private Residence Relief - In general, Principal Private Residence relief (PPR relief) provides for relief from capital gains tax ('CGT') on the gain arising on the disposal of a dwelling house or part of a dwelling house which has been occupied by an individual as his or her only or main residence. An outline of the relief is set out below. Hosts should be aware that the rules which apply to this relief where a property has also been let are complex and can also be affected where the gardens and grounds exceed half a hectare. These rules should be considered in detail in relation to a host's particular circumstances and where appropriate specialist advice should be taken.

In general terms PPR relief is subject to the following condition being met:

The dwelling house must have been occupied at any time during the period of ownership by the individual as his or her only or main residence throughout the period of ownership. Note that where the property has been occupied as a private residence at some time during ownership the last 18 months of ownership is automatically deemed to be a period of occupancy in any event.

Where the dwelling house was not occupied by the individual as his or her only or main residence throughout the period of ownership, only partial relief may be due. This will be the case if a host lets the whole of his residence and therefore does not occupy for a period of time. In this situation any capital gain is deemed to accrue evenly throughout the entire period of ownership and only the portion of the gain that relates to the period of owner-occupation can be relieved from CGT. There are, however certain exceptions to this rule, for example where the individual is required to move abroad for work purposes.

Capital gains tax lettings exemption - A 'lettings' exemption' is also available where the property has been an individual's PPR but has also been let during the period of ownership. The amount of lettings exemption is capped to the lesser of £40,000, the gain left in charge or the amount of gain already exempted by PPR.

If a portion of the dwelling house was used exclusively for the purpose of a trade, business or profession, again only partial relief may be due and only the portion of the gain that relates to the qualifying part of the dwelling house (i.e. the part that was occupied as a principal private residence) can be relieved from CGT.

If an individual has more than one residential property which they occupy as a residence then they may nominate which residence should be regarded as their main residence for the purpose of the PPR relief. There are specific time limits for making this election.

Interaction with rent-a-room relief - The CGT PPR exemption is not restricted in respect of any period for which the vendor has made a claim for rent-a-room relief, i.e. where the conditions for rent-a-room relief are satisfied and the vendor has occupied the property as their only or main residence throughout the period of ownership, the above capital gains tax exemption will still apply.

Any deviances from this scenario may restrict the full exemption being available, however there is further relief under the lettings exemption that may assist in exempting any remaining gain.

Further information on PPR relief is available on the HM Revenue and Customs website.

Reporting the disposal of a property on a UK tax return - Where a disposal of property is made there may be a requirement to disclose the details on a Self-Assessment Tax return. The requirements for this are where:

- The disposal proceeds are more than 4 times the CGT annual exemption, this being £11,300 for 2017/18 and £11,700 for 2018/19.
- There is capital gains to pay from a disposal in the year.
- There is a capital loss for the year, details of which should be reported to HMRC.
- There are claims or elections required to be made concerning a capital gain – this includes where a property is not entirely exempted from CGT with reference to principal private residence relief (PPR).

Where a gain is fully exempt due to PPR, there are no reporting requirements to be made.

However, if there is any doubt as to whether PPR does apply to shelter the complete gain e.g. if two homes were owned at the same time or there was a period it was not occupied), it is advised that full disclosure of the gain to HM Revenue and Customs.

Please see Appendix C for example pages of the Self-Assessment Tax return in relation to capital gains.

Where an individual regarded as not resident in the UK disposes of a residential property situated in the UK, the disposal, there are additional reporting requirements and in some cases any capital gains tax arising may be payable at the time of sale of the property.

2.2 Example of Capital Gains Computation – PPR partly available

Rebecca owned a property in London, which she originally purchased in June 2008 for £200,000, and she sells it for £350,000 in June 2017. During the time that she has owned the property, it was her principal private residence from the time she acquired it until June 2012, when she moved to live with her partner, and it has been rented to third party tenants since then up to the date of disposal.

Her capital gains tax position is as follows:

Proceeds from Sale	£ 350,000
Less: Acquisition Cost	<u>(£200,000)</u>
Gain on Sale	<u>£150,000</u>

As the property has been Rebecca's principal private residence (PPR) for part of the ownership period, she is entitled to exempt part of her gain for the period of occupation and the 'deemed' occupation period of the last 18 months up to disposal.

Gain exempted – Actual occupation (4 years out of 9 years * £150,000)	£66,667
Deemed occupation (1.5 years out of 9 years * £150,000)	<u>£25,000</u>
	<u>£91,667</u>

The remaining gain in charge is £150,000 - £91,667 = £58,333.

As the property was let during the period of ownership, the lettings exemption can be considered.

The remaining gain left into charge after the lettings exemption is £18,333 - i.e. (£58,333 - £40,000) (The lettings exemption is the lower of £40,000, the PPR claimed £91,667 or the gain of £58,333).

3. Rent-a-room relief

3.1 What is rent-a-room relief

Rent-a-room relief provides an income tax exemption for rents received in a tax year, where certain conditions are met (see below). The relief is only available to individuals who rent a room (or rooms) for residential purposes in their only or main residence.

HM Revenue and Customs (HMRC) have recently updated their guidance in relation to rent-a-room relief and this can be found on HMRC's website. This section should be read in conjunction with the updated guidance from HMRC. <https://www.gov.uk/rent-room-in-your-home>

There is currently an open consultation on rent-a-room relief being carried out by HM Revenue and Customs, therefore this relief is subject to change in the future. Please see section 3.10 below for further details.

3.2 The conditions required for rent-a-room relief to apply

Rent-a-room relief is only available where certain conditions are met, as follows:

- The room(s) being let must form part of the hosts 'residence' as defined, which means that they must be residential premises (e.g. a building or part of a building used as a dwelling) located in the United Kingdom which is occupied by the host as their only or main residence during the tax year; and
- The rents must be in relation to the letting of furnished accommodation. The letting of rooms as office accommodation is not accepted by HMRC as qualifying for relief; and
- Gross rents receivable in a tax year must not exceed the hosts 'individual limit' for the year of assessment concerned. Gross rents within the individual limit are exempt from income tax.
- Hosts should be aware, however that HMRC have stated in their current guidance for rent-a-room relief that they consider that the letting of the whole of a home (as opposed to part of it, for example a single bedroom) would disqualify that individual from claiming rent-a-room relief. We understand that this is based on their view that the relief is intended for individuals who only let part of their home.

The legislation which applies to rent-a-room relief states that the property must be the individual's only or main residence for *some or all* of the income period (usually the tax year). Therefore based on a literal reading of the legislation a temporary rental of the whole property may qualify for relief if the property is occupied before or after the rental period as their only or main residence.

In view of HM Revenue and Customs' position any hosts who are in this situation and make a claim for rent-a-room relief, are recommended to make a full disclosure on their tax return of the facts and the position they have taken in relation to a claim to rent-a-room relief and they should note that their position taken on their tax returns is different to that of the published HMRC guidance.

- Gross rents for this purpose include income received in respect of the letting and other sums received in connection with the letting (e.g. meals, laundry and other similar goods or services incidentally supplied) before deduction of any allowable expenses.
- The current individual limit is £7,500 and prior to 6 April 2016 the limit was £4,250.
- The limit is however halved (currently to £3,750) when more than one individual receives rent from the use of the accommodation at the same time or in the same tax year. For example, where

rents are received jointly by husband and wife they would each be entitled to half of the full limit for the tax year. In a situation where three sisters jointly own a property which qualifies for rent-a-room relief, they would each be entitled to one half of the individual limit (currently £3,750).

- Where an individual qualifies for rent-a-room relief in a year an election may be made to waive the exemption for a particular year of assessment. Hosts will therefore need to consider whether, based on their individual circumstances, the waiver is beneficial and if appropriate make a specific election within the required time limits. This may be beneficial in a loss making situation where the gross rents are below the exemption limit but a loss arises after expenses. The loss may not be carried forward unless the exemption was waived

Alternative basis of computation - Where an individual qualifies for rent-a-room relief in a year but the gross rents exceed the individual limit the taxable rental profits will be calculated by the method outlined in Section 1.1 above unless the individual elects for the alternative method of calculation. If an election to use the alternative method of calculation is made, only the excess amount of gross rental receipts over the rent-a-room relief exemption is considered when deriving taxable rental for the year of assessment (See illustration below at 3.5).

An exemption from income tax in relation to the rental income received may be claimed if the above conditions are met. A tax return is not required to claim rent-a-room relief in these circumstances but hosts must consider whether they may be required to file a tax return for other purposes, and fortunately, a tax return is not required, solely in order to claim rent-a-room relief. Where the above conditions are not met, or if an individual decides to elect to not use the exemption of rent a room relief, the rents received may be liable to income tax as rental property income. An individual is then obliged to file an annual tax return to report the property income.

3.3 Who can claim the relief?

Individuals who meet the conditions as set out above. The relief does not apply to companies or partnerships. However, it can apply where rents are received by more than one individual, for example, a husband and wife, where there is no partnership. In such cases, the individual limit (currently £7,500) is allocated as if each person has a half of the full limit e.g. £3,750 each.

3.4 Examples of circumstances where the relief is not due

Some common examples include:

- Where gross rents received in a tax year exceed £7,500 for an individual or £3,750 each for joint owners unless an election is made for the alternative method of calculating taxable rental profits.
- Where the property is not an individual's only or main residence (e.g. an investment property),
- Relief can apply only if the residence concerned is in the UK. This prevents the relief being denied on the basis that an individual also lets an overseas residence at the same time.
- The residence must be the individual's only or main residence at *some time* during the income period. Therefore if a host does not occupy the residence as their main residence at any time during the tax year then the relief may not be available. (See 3.2 above in relation to HMRC's current position where the entire property is let out at a time when the Host is not physically present at the same time).
- Individuals who go abroad to work and, in the meantime, let their UK homes are unlikely to qualify for the relief during their absence.
- Where the rent a room limit has not been exceeded so that the exemption is available but an election has been made for the total income less expenses to be used as the basis of calculating taxable profits for the tax year.

3.5 Rent-a-room relief – Example where gross receipts are fully exempt (2017/18 rates)

Jemma owns a 2 bedroom house in Leeds which she occupies as her main residence. The spare room was sub-let to a lodger (who worked in the city during the working week) for £15 per night. The total gross rents which are due and which Jemma received during the year ended 5 April 2018 was therefore, £3,450 (46 weeks x 5 nights x £15 per night).

As the amount of rental income that she has received is less than the rent-a-room limit in 2017/18 of £7,500, the whole of the rental income should be exempt from income tax and Jemma has no further reporting requirement to the UK tax authorities.

If Jemma was required to complete a tax return for any other purpose, then it is advised that a declaration of the exemption is made within the Land and Property pages (shown in Appendix D) of the tax return.

3.6 Rent-a-room relief – Example of alternative method where gross receipts exceed the exemption limit (2017/18 rates)

Peter owns a three bed house in Birmingham which he occupies as his main residence. He sub-let two rooms in the house throughout the year ended 5 April 2018. The two rooms were sub-let for £700 in total per month. The total gross rents which are due and which Peter received during the year ended 5 April 2018 was therefore £8,400.

As the rents exceed the limit for rent-a-room relief the normal rental income rules apply so that Peter will have to calculate the taxable rental income and claim for expenses unless he chooses to adopt the alternative method if this is beneficial. This is illustrated below.

Position using normal method of calculation - The house measures 2,200 ft². The rooms Peter sub-lets measure 400 ft² and 350 ft² respectively.

Peter incurred the following expenses in 2017 in respect the property:

1. Insurance of £700,
2. Council Tax of £1,215,
3. Light and Heat of £3,600, and
4. Repairs of £200 in respect of damage to one of the sub-let rooms.

Peter has kept a record of gross rents received and has all supporting documentation, e.g. confirmation of mortgage interest incurred in 2017 from his Bank, receipts for expenditure incurred etc.

Peter is single and his only other source of income is from his employment. This income is subject to tax via PAYE at source.

In calculating net taxable property income, Peter may deduct allowable expenses which relate to the rooms that are sub-let. Where an expense is incurred and it relates to the entire house (i.e. not just the sub-let rooms) it is necessary to calculate the portion of the expense that relates to the sub-let rooms on a just and reasonable basis. A just and reasonable basis might be for example to apportion the expense based on the square footage of the sub-let rooms and the house. This is the basis on which Peter's rental computation has been prepared below.

Peter's rental computation:	£
Gross rental income	8,400
Less allowable expenses:	
Council Tax*	414
Insurance**	239
Light and heat***	1,227
Repairs****	200
	(2,080)
Net taxable rental income	£6,320

Position with alternative method of calculation - as the gross rents exceed the rent a room limit, Peter could have elected to have been taxed on the excess of £8,400 - £7,500 = £900.

This means that Peter's taxable property income would be £5,420 more by using the normal rental rules when compared to using the alternative method of calculation.

* Only the part of the Council Tax expense that relates to the rooms that are sub-let can be taken as a deduction. The portion relating to the rooms that are sub-let must be calculated on a just and reasonable basis, e.g. based on square footage as follows, £1,215 * 750 ft²/2,200 = £414.

**Only the part of the insurance expense as relates to the rooms that are sub-let can be taken as a deduction. The portion relating to the rooms that are sub-let must be calculated on a just and reasonable basis, e.g. based on square footage as follows, £700 * 750 ft²/2,200 ft² = £239.

***Only the part of the light and heat expense as relates to the rooms that are sub-let can be taken as a deduction. The portion relating to the rooms that are sub-let must be calculated on a just and reasonable basis, e.g. based on square footage as follows, £3,600 * 750 ft²/2,200 ft² = £1,227.

****The repairs relate directly to one of the rooms that are sub-let and as such the entire expense can be taken as a deduction.

3.7 How is the relief granted?

A tax return must be filed if the rent-a-room relief limit has been breached or if either of the two elections explained previously are to be claimed. This enables the reporting of appropriate net property income in the tax year, according to which method has been used. Please refer to Appendix D which illustrates the relevant section of the return that must be completed.

3.8 Claiming rent-a-room relief on a tax return

Please refer to Appendix D as a guide for claiming rent-a-room relief on an annual tax return.

3.9 Government consultation into the relief

There is currently an open consultation on rent-a-room relief being carried out by HM Revenue and Customs. The objectives of the call for evidence by HMRC are:

- to find out more about the use of the relief - the types of activity being carried out, why individuals are choosing to let parts of their accommodation and the impact on the housing market
- establish whether the relief is working as the government intends - whether it is an appropriate use of tax relief or whether the relief should explicitly support residential accommodation provided on a longer term basis, or for a certain purpose
- help inform any potential reform of the relief - to seek a range of views on the effectiveness of the relief, what role should be in the modern housing market, and whether there is any consensus around possible directions for the reform.

The deadline for responses to the call for evidence is 23 February 2018. The government state the call for evidence will form future policy development and will set out its intentions once it has considered the responses received.

3.10 Rent-a-room relief – Frequently Asked Questions

Please note that HM Revenue and Customs has recently updated their guidance in relation to rent-a-room relief and this can be found on HMRC's website. This section should be read in conjunction with the updated guidance from Revenue. <https://www.gov.uk/rent-room-in-your-home>

1. I understand rent-a-room relief only applies to a 'qualifying residence' – please explain

- A qualifying residence is a property, situated in the UK, and which is occupied by an individual as their only or main residence during a tax year. You must therefore occupy the property as your only or main residence in order for rent-a-room relief to apply.

2. Is rent-a-room relief available if I let my entire apartment/house?

- Rent-a-room relief is only available in respect of sums arising from the letting of a room or rooms in a property that is occupied by the individual as their only or main residence. If the entire property is let and you are not living there, per HMRC guidance, this condition would not be met; therefore the relief would not apply in these circumstances. (Please see detailed comments in section 3.2).

3. I share a house with some friends. I will be away for a number of months this year due to work. Can I claim rent-a-room relief if I let my room during the time that I won't be living in the property?

- It is a condition of the relief that the individual in receipt of the income occupies the property as their 'only or main residence' during the year. This does not however strictly require that you must live in the property *throughout* the year. Therefore, provided the property is your only or main residence at some time during the year that you are receiving rental income (preferably before the letting began), and the other conditions are met, the relief should apply.

4. I receive rental income from an apartment which I own as an investment property, can I claim rent-a-room relief?

- No, the relief only applies to income from letting of a room or rooms in a property which is occupied by you as your only or main residence.

5. I am a tenant in a rented house, can I claim rent-a-room relief if I sublet a room in the house?

Yes, you can. It is not a requirement of the legislation that the person receiving the rent is the owner of the property. You may however need to consult your landlord to establish whether subletting is permitted under the terms of your lease.

6. I own a house jointly with my spouse, we both live in the property; if we let out our spare rooms, can we both claim the maximum relief of £7,500 per year?

- Where income arises to more than one individual from letting of rooms in a qualifying residence, then the limit for each individual for whom the residence is his only or main residence during the period is one half of the basic amount. This applies irrespective of the number of individuals who are eligible for the relief. Therefore based on the current limits you would each be entitled to claim exemption on up to £3,750 each, per year.
- The availability of the limit is not restricted to only between spouses; it is relevant to any individual for whom the residence is their only or main residence. For example, a property occupied by three sisters, would enable a claim for exemption of £3,750 each for the current year for their share of any rental income during the tax year.

7. We have a basement in our house which has been turned into a self-contained unit with its own entrance; does rent-a-room relief apply to letting the basement unit?

- Yes. Provided the self-contained unit forms part of the residential premises the relief should apply, subject to meeting the usual conditions and the division of the self-contained unit is only temporary. The relief would not however apply to a unit which is physically separate from the residence, for example a mews building standing in the garden of the residence. HMRC would consider each situation based on the particular facts and whether the unit is separate by its own

facts e.g. the length of time being separate and for how long it will continue, whether it has its own address, if it has separate utility meters, whether a separate mortgage can be taken with the unit as security, etc.

8. My employer is hosting a conference and due to a shortage of nearby hotel accommodation has offered to pay employees for the use of spare rooms in their home if they are willing to host delegates, can I claim rent-a-room relief for these payments?

- Yes, there is no restriction within the legislation that applies to payments received either directly or indirectly by an individual, or a person connected with the individual, in respect of accommodation provided in a home where the individual is an employee of the person making the payment or of a person connected with the payer. There is however, HMRC guidance with regards to their opinion if the property is used as an office or for business use, which explicitly opposes to the use of the rent-a-room exemption for this purpose.

9. I have a holiday home and I sometimes let rooms during peak season, can I claim rent-a-room relief?

- No, you must occupy the property as your only or main residence. Since the property is a holiday home, this condition would not be met. However, this may qualify as a furnished holiday let (FHL) in any case - refer to Section 4.

4. Furnished Holiday Lettings

Rental profits in the UK are generally regarded as investment income but where a property qualifies as a 'Furnished Holiday Let' (FHL) then some of the tax advantages normally only available to trading income may be claimed. In view of the conditions which must be met to qualify for this treatment it is unlikely to be available in relation to a property occupied by a host as their private residence but may be applicable to hosts who receive rental income from a second home.

4.1 What is a Furnished Holiday Letting

A furnished holiday let (FHL) is a commercial letting of fully furnished property as holiday accommodation, where certain conditions are met (see below). The distinction for tax purposes between a FHL compared to an ordinary furnished rental property is that an FHL is 'deemed' to be treated in the same way as a trading business. This then gives a number of advantages with regards to availability of certain expenses and also gives access to other tax reliefs that would not normally be available in relation to taxable rental income.

4.2 The conditions required for a property to qualify as a FHL

A property qualifies as a furnished holiday let if the following conditions are met, as follows:

- The property must be situated within the UK and EEA (European Economic Area)
- The property must be let by a lease or other arrangement under which a person is entitled to the use of the accommodation
- The property must be let on a commercial basis with a view to the realization of profits. The individual must be able to demonstrate the intention to make a profit e.g. by formal business plans
- The accommodation must be furnished with furniture which the person using the accommodation must be entitled to use
- The accommodation must be 'qualifying holiday accommodation'

The definition of 'qualifying holiday accommodation' relates to the amount of time that the property is available to let and the time that it is actually let. The timescales are that in a relevant period:

- The accommodation must be available for commercial letting as holiday accommodation to the public generally for at least 210 days;
- The accommodation must be commercially let as holiday accommodation to members of the public for at least 105 days, and;
- That there is not a pattern of occupation by the same person (or people) that is classed as 'longer-term occupation' which in total is more than 155 days. A period of longer term occupation is a continuous period of more than 31 days during which the accommodation is in the same occupation.

A relevant period is usually the tax year in question, unless there is a commencement or cessation of the letting where a different period may apply.

If it was the case that the holiday accommodation did not satisfy the above conditions in relation to the tax year, there are two elections that are available that can enable a property to still qualify.

The first election is in relation to 'averaging' or the second election is alternatively, a 'period of grace' election that can be made.

An *'averaging' election* is beneficial if there is more than one property that is being let as furnished holiday accommodation, as defined, but where one or more of the properties have met the 'used' day test, and one or more have not.

A *'period of grace' election* can be used by allowing a person to treat furnished holiday accommodation, that would not otherwise qualify due to not being let for enough days as a FHL in a relevant period. Where the property qualified for the previous year and there was a genuine intention to meet the condition but it does not qualify for both of the next two years, then the election can be made for each year.

For both the averaging election and the period of grace election, UK properties and EEA properties have the elections applied in isolation as they are treated as two separate 'FHL businesses'.

Either election needs to be made by the first anniversary of the normal self-assessment filing date for the year in respect of which the election is to take effect.

4.3 Special tax treatment of Furnished Holiday Lettings

Treatment of expenses and capital allowances

In general, the same expenses that a normal rental property would incur will be allowable for tax purposes for a furnished holiday let. There are however specific differences which are applied to properties qualifying as a furnished holiday let as follows. It should be noted that the restrictions in relation to finance costs to let properties (see section 1.3), specifically do not apply to properties qualifying as furnished holiday lets. Therefore the full cost of mortgage interest etc. will be allowable in full against the income from a FHL.

There was no option to claim wear and tear allowance prior to 5 April 2016 as a claim for capital allowances is available on capital expenditure incurred in relation to the property. Examples of capital expenditure that should qualify for capital allowances include furniture and furnishings, televisions, etc. Capital allowances will not usually be available on property improvements which instead may be taken into account for capital gains tax purposes (see section 2)

Capital allowances rates can change and for 2017/18 are set at the following:

- Written down allowances 18% per annum
- Special written down allowances 8% per annum

The Government also announces, periodically, a range of special rates of capital allowances, which are intended to encourage businesses to invest in capital expenditure. One such allowance is the Annual Investment Allowance (AIA), which enables up to £200,000 of expenditure per year (from 1 January 2016, previously £500,000 per year) to be claimed at 100% relief.

Hosts are recommended to consider the specific rules in detail and take specialist advice if appropriate in order to clarify the availability and quantify the expenditure using the applicable rates in force.

4.4 Relief for finance costs

The restrictions of the amount of income tax relief which apply from 6 April 2017 in relation to finance costs incurred by an individual who is in receipt of rental income from residential properties (see Section 1.3) do not apply in relation to properties which qualify as a FHL.

4.5 Relevant earnings for pension contributions

Profits from a property qualifying as a FHL are regarded as “relevant earnings” for a pension contribution which means that, subject to the property owner’s personal circumstances, it may be possible to pay pension contributions which qualify for income tax relief.

4.6 Losses of a FHL

Losses must be calculated separately with reference to UK properties and EEA properties which qualify as FHL and the use of the losses are then restricted to profits of the same UK or EEA FHL business. Prior to 6 April 2011, losses arising from FHL were available to set against other income.

4.7 Reporting a FHL on a tax return

Due to the rules governing FHL being different from that of ordinary property letting, the calculation and reporting of the FHL income and losses is separate from that of ordinary property income. Also as discussed above, there is a separate calculation of FHL’s depending on if they are in the UK or in the EEA as well as separate reporting on the Self-Assessment tax return.

Examples of the relevant pages required to report the income/losses are included within Appendix D.

4.8 Jointly owned property

As discussed at section 1.10, properties can be held by more than one individual and it is necessary to apportion the rental income (and allowable expenses) between the individuals based on each individual’s percentage ownership of the property.

Where spouses are concerned, it is usually the case that the split is based on a 50/50 share and the actual proportions of ownership is disregarded. However, for profit and losses from a furnished holiday let, this rule is specifically disregarded and the split can be made dependent on the agreement that is made between the parties.

4.9 Capital Gains Tax

As discussed at section 2, properties that would be an individual’s principal private residence (PPR) are generally exempted from capital gains tax. However, as furnished holiday lettings are unlikely to be a qualifying PPR due to the fact that the property may not be the individual’s only or main residence, any gain on the sale of a FHL may be taxable to capital gains tax (CGT) in full.

However, if a property qualifies as a FHL at the time of the sale, there are a number of reliefs that are available in order to either reduce the capital gains tax rate or to defer the gain, as follows:

- *Rollover relief on the replacement of business assets* – this enables a gain to be deferred if all or part of the proceeds of sale of the FHL is reinvested into a further FHL or other business asset.
- *Gifts holdover relief* – this enables a gain that would otherwise arise on a gift of a FHL to be deferred until the sale of the FHL by the donee.
- *Entrepreneurs’ relief* – this enables the tax rate of the gain to be fixed at 10% rather than a maximum of 28%. The availability of the rate depends upon whether an individual has not exceeded a lifetime limit of gains of £10,000,000 and whether the FHL has been owned for the relevant holding period of twelve months prior to sale.
- *Relief for loans to traders* – this enables a capital loss to be made available on a loan that has become irrecoverable where it was originally used by the borrower wholly for the purposes of the FHL business carried on.

Where an individual is within charge of capital gains tax, they should engage a tax advisor to ascertain whether any of the above reliefs can be used in their specific circumstances.

5. Guide to preparing an annual Self-Assessment tax return

5.1 The requirement to file a tax return in relation to rental income

The UK has a fiscal year tax system, with the tax year running from 6 April to 5 April each year. Subject to certain exceptions, individuals with property income (and property income qualifying as a Furnished Holiday Let), which is taxable in the UK, will need to include details on a UK tax return and file an annual tax return to HM Revenue and Customs under the requirements of Self-Assessment.

In addition, individuals who wish to claim rent-a-room relief, as their income is in excess of the rent-a-room limit or claim elections to dis-apply the rent-a-room provisions will need to file an annual Self-Assessment tax return.

The requirement to file a UK tax return will exist for any tax year during which an individual is in receipt of UK property. For hosts where the property income is their only source of income a tax return may not be required if their taxable rental income is less than £2,500 after allowable expenses.

If your annual gross property income is £1,000 or less and you are not required to complete a Self-Assessment tax return for any other reason, you will not have to declare this income on a tax return. You must keep a record of this income.

If you are already registered for Self-Assessment and required to complete a tax return, you can claim the £1,000 allowance by deducting this from your gross property income on your tax return. You cannot deduct any other expenses or allowances if you claim this allowance.

There is no requirement to file a tax return for any tax year where the property income is fully relieved by the rent-a-room exemption and where the individual's only other source of income is employment income that has been subject to tax at source (PAYE) in full.

There are a number of scenarios within which an individual may be required to complete a UK tax return and hosts are therefore recommended to consider their personal circumstances each year and where necessary take specialist advice or follow the link below to the HMRC website for more details.

<https://www.gov.uk/check-if-you-need-a-tax-return>

Individuals who file an annual Self-Assessment tax return will either need to file an SA100 tax return or alternatively they can request and file an SA200 tax return. The SA200 is a shorter version of the tax return and is intended for use by those whose income is mainly subject to PAYE, have modest other taxable income and/or simple tax affairs.

An individual with employment income that is subject to tax at source (PAYE) and a low level of non-PAYE income (e.g. property income) can make an arrangement with HM Revenue and Customs to have the tax due on their non-PAYE income collected by means of an adjustment to their tax code number. This will be done by reducing their tax free personal allowance. In order to enter into such an arrangement with HMRC, the individual must have:

- Total taxable income of less than £100,000 per annum, and
- Net taxable non-PAYE income (i.e. gross income less deductible expenses) of less than £2,500 per annum.

5.2 Registering for Self-Assessment

An individual can register for Self-Assessment by completing a form SA1 and submitting this by post to the HMRC Central Registration Centre in Newcastle-upon-Tyne. Alternatively, this can be done

using the online form SA1, which uses a 'structured email' to send the relevant information electronically to the Central Registration Centre. A link to this form is available below

<https://www.gov.uk/register-for-self-assessment>

Once registered, individuals receive a 10 digit Unique Taxpayer Reference (UTR) which will be required in order to file a UK tax return.

Where an individual no longer has an obligation to file an annual tax return, they can 'de-register' by contacting HMRC via their helpline on 0300 200 3310 or by writing to them at HM Revenue and Customs, Self-Assessment BX9 1AS.

5.3 Electronic filing

SA100

A paper form of the SA100 and its supplementary pages are available. This can be completed and submitted by post to HMRC's Self-Assessment office (please refer to Section 5.7 for further detail on the submission of the return).

An electronic form SA100 is also available via HMRC's Online Services. Individuals can register for HMRC Online Services by using the following link:

<https://online.hmrc.gov.uk/registration/individual>

As part of the enrolment process, a personal User ID (also known as a Government Gateway account) and password is created. A 12 digit activation code will also be issued to the applicants' registered address within 10 working days and this code is required to 'activate' the Online Services account. This needs to be done within 28 days, otherwise it will expire and a new request will need to be made.

Hosts should therefore allow sufficient time to register for self- assessment in advance of the filing deadline.

If any help is required by a host following the enrollment process or in preparing your tax return within Online Services, HMRC offer support through the 'Online Services Helpdesk' that can guide you through any problems that might arise. They can be contacted via

helpdesk@ir-efile.gov.uk or telephone 0300 200 3600.

Filing deadline

Any taxpayers that had requested to complete a paper tax return have until 31 October following the end of the tax year, within which to file their tax return by post. For example the deadline for submission of the 2017/18 income tax return is 31 October 2018.

Otherwise, an electronic return would need to be submitted as described above, by 31 January following the end of the tax year. For example the deadline for submission of the 2017/18 income tax return is 31 January 2019.

5.4 Payment of tax and payments on account

Balancing payments

Where applicable, balancing payments of tax must be paid by individuals who are required to file an SA100 tax return. A balancing payment is the remaining tax assessable after taking into account any income tax that has been deducted at source and is therefore likely to include the UK income tax payable on taxable UK rents, after taking into account any tax paid on account

The balancing payment will also include any capital gains tax that is due for the tax year in question and the whole balancing payment is due by 31 January following the end of the tax year.

Payments on account

An individual may also be required to make 'payments on account' of income tax for the immediately preceding tax year. The 'payments on account' are paid in two installments made of 50% of the previous years' tax liability, excluding student loan repayments. The first installment is due by 31 January during the tax year and the second installment is due by 31 July following the end of the tax year. This is subject to de-minimis limits which are outlined below.

For example, where an individual's tax liability after all deductions at source and tax paid on account for the year ended 5 April 2018 was £10,000, the amount of payment on account that would be required for 2019 is £5,000 per installment. The first instalment will be due by 31 January 2019 and the second due by 31 July 2019.

There is no requirement to make payments on account in the following instances:

- where the amount of income tax in the previous year is less than £1,000
- Where the amount of income tax due, before deductions for tax suffered at source, would already have had more than 80% paid by reference to the deductions of tax suffered at source.

If an individual expects that the amount of income tax that is estimated for payments on account will not be required to be paid, there is an opportunity to reduce the payments on account to any other lower value, a minimum of nil. This is done by notifying HMRC on the tax return.

If it is realised that the claim to reduce the payments on account was overstated, then the balance of tax would be payable immediately. Also if an individual does not pay the payment(s) on account by the due date(s) or if the amount of payments on account paid is too low, the individual will be liable to an interest charge. The interest accrues from the date the payment on account was due.

5.5 Notification of requirement to file a UK tax return - deadlines to meet

The deadline within which an individual is required to notify HMRC of the obligation to file a Self - Assessment tax return is 6 October following the tax year. For example if a host identifies that they are required to file a tax return for the 2017/18 tax year, they should have notified HMRC by 6 October 2018.

If the notification is made after the above deadline, the individual may be liable to a late notification penalty, of which the quantity of which will depend on the circumstances behind the failure. Broadly speaking, the penalty is based on a percentage of 'potential lost revenue' and the percentage can be mitigated dependent on the behavior that caused the original failure and the reaction of the individual to settle their tax affairs. More information can be found regarding penalties in section 5.12.

Therefore hosts will need to consider a deadline of 31 January for the electronic filing of the annual tax return for the previous year, payment of the balance of tax due for the previous year and payment of the first payment of account for the current year.

Hosts will also need to consider a deadline of 31 July each year for the second payment on account of the current tax year.

5.6 Provisional tax return

Where an individual who is registered for Self-Assessment and files an SA100 tax return with parts that are not yet finalised or where estimated figures have been used, it can be indicated within the tax return that these particular items are 'provisional'. The provisional box may be ticked and a tax payer has to give a genuine reason for the delay and give an indication as to when the finalised figures will be available. The individual is then required to re-submit the tax return, with the finalised figures, as soon as is reasonably possible.

5.7 Including additional information on the tax return

Where an individual who is registered for Self-Assessment and files an SA100 and is unsure of the tax treatment of a particular source of income or gains or files on a basis in which the individual adopts a tax treatment that contradicts HMRC's view, then an individual can disclose details with the 'additional information' boxes within the tax return. This ensures that in the event of an Enquiry into the tax return by HMRC, HMRC should already have been made aware of the issue via the additional information provided.

- The use of the additional information box in these circumstances should be considered very carefully as it may have implications in relation to HMRC's entitlement to enquire into the tax return. In this situation hosts are advised to take specialist advice to consider the basis of any such disclosure.

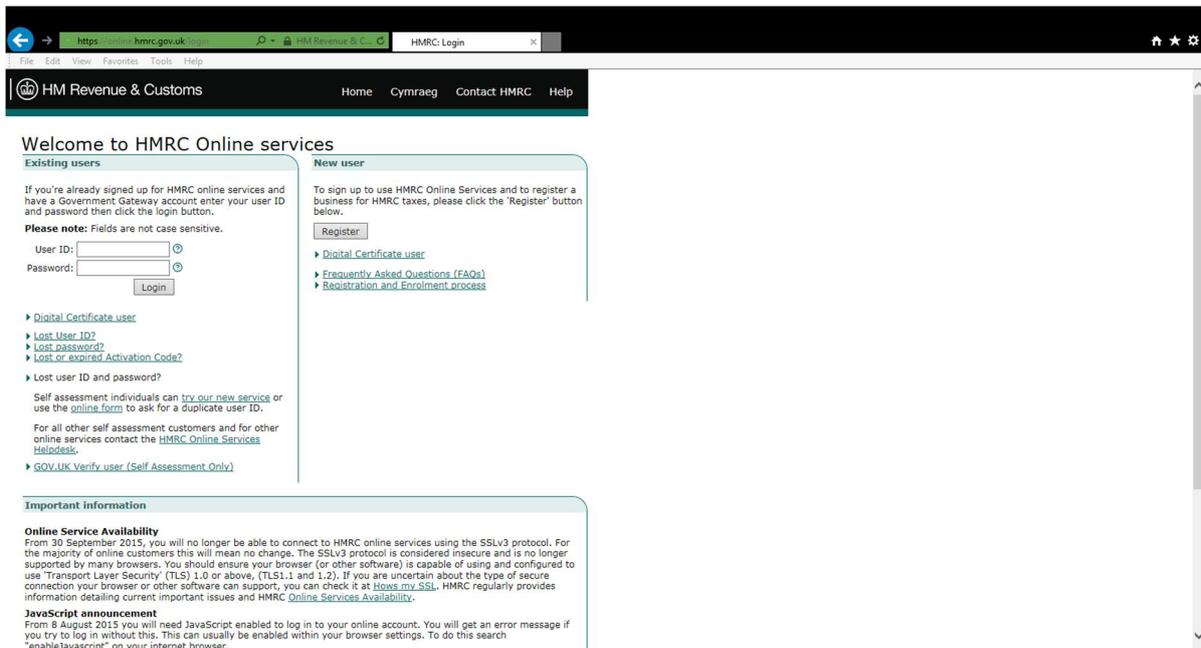
5.8 Submitting a tax return

SA100

Paper returns - Once the tax return is completed it will need to be signed and submitted to HM Revenue and Customs. A paper SA100 must be signed and submitted to Self-Assessment BX9 1AS.

Submission on line - An electronic SA100 must be submitted via HMRC Online Services or third party software.

A significant number of SA100 tax returns are now completed and submitted via HMRC Online Services. Once the tax return is complete and all income, gains, allowances and reliefs have been entered online, the tax return is uploaded to HMRC via your Government Gateway account. To complete and file a tax return via HMRC Online Services, log into your account using the Personal User ID and password provided by HMRC and follow the links on your account homepage.



HMRC offer support via the Online Services helpdesk (helpdesk@ir-efile.gov.uk or 0300 200 3600 (UK only) or +44 161 930 8445 (outside the UK)) for any Online Services related queries.

5.9 Payment of income tax liability

There are a number of payment options available to taxpayers. Where an individual files an SA100 or SA200 tax return, a number of payment options exist, e.g. direct debit, bank transfer, credit card payment, debit instruction etc. A complete list of the payment options is available on the HM Revenue and Customs website <https://www.gov.uk/pay-self-assessment-tax-bill>

5.10 Records to be kept

An individual must keep full and accurate records relating to his or her tax affairs. The records being kept must be sufficient to enable an individual make a proper return of income for tax purposes.

For example, records to be kept in respect of property income should include:

- Rent books, detailing the gross amount of rents received per annum,
- All supporting records in relation to expenses incurred such as invoices and receipts.

Records must be kept for a period of six years.

Failure to keep proper records or failure to keep them for the required six years is an offence, for individuals who are chargeable to tax. A penalty up to a maximum of £3,000 could be levied to an individual who does fails to comply.

5.11 HMRC right to inspect records and enquiries

HM Revenue and Customs has extensive rights to request and inspect documents and records in accordance with the enquiry/compliance check process. HMRC also has powers to inspect records in real time and request information from third party providers.

For example, HMRC has the right to inspect any records or documents relating to any tax liability, including a tax liability arising in respect of rental income received. In addition, HMRC has the right to enter any place where it believes records are being kept relating to a tax liability, and request that such information be provided for inspection. There are however specific guidelines that have to be

followed concerning the entering of premises, especially with regards to records held in private residences.

With regards to enquires into Self-Assessment tax returns, HMRC have a time limit of twelve months from the date of submission, within which to open an enquiry. There are limited other instances where this time limit can be extended e.g. where information comes to light that contradicts the contents of the original tax return submitted.

Further details on Compliance Checks and the process are available on the HM Revenue and Customs website

5.12 Application of interest and penalties

Statutory interest (currently 3% per annum) is calculated at a daily rate and may apply where payment of the tax due has not been made by 31 January for balancing payments and the first payment on account (or by the extended deadline) and 31 July for the second payments on account.

Late payment penalties can also be levied if the balancing payment is not made by 31 January (or by the extended deadline). These are based on the amount of tax outstanding at the due date as follows:

- 30 days late - 5% of the tax due
- 6 months late - 5% of the tax outstanding at that date
- 12 months late - 5% of the tax outstanding at that date

Failure to file a Self-Assessment tax return by 31 January (or by the extended deadline) will result in a penalty, as follows:

- Where the return is filed late of the filing date - £100 automatic penalty,
- Where the return is filed more than 3 months after the filing date - daily penalty of £10 per day for up to 90 days (max £900).
- Where the return is filed more than 6 months after the filing date - 5% of the tax due or £300, if greater.
- Where the return is filed more than 12 months after the filing date - 5% of the tax due or £300 if greater, unless the tax payer is held to be deliberately withholding information that would enable HMRC to access the tax due.

If an individual was found to be deliberately withholding a tax return then penalties of up to 100% of the tax due can be levied, mitigated dependent on the individual's behavior on assisting HMRC to comply.

A penalty may also be due where an individual files a return which is incorrect or incomplete.

Further details on the interest and penalties applicable are available on the HM Revenue and Customs website.

<https://www.gov.uk/estimate-self-assessment-penalties>

5.13 Examples of some areas where errors may occur

- Not registering for Self-Assessment, when an individual is required under the circumstances explained.

- Under-declaring total property income due to the income and expenses being calculated on an accruals basis rather than on the cash basis.
- Claiming for expenses that are of a capital nature e.g. claiming the capital amounts of mortgage payments, claiming for property improvements rather than repairs/renewals.
- Failing to restrict the correct amount of finance costs in view of the new rules from 6 April 2017.
- Claiming the initial cost of furnishings, whereas only replacements are available, since the wear and tear allowance has been abolished from 6 April 2016.
- Failure to report the disposal of properties for UK capital gains tax purposes.
- Claiming for principal private residence relief for UK capital gains tax on the disposal of a property when the relief is not available.
- For UK resident hosts ensure income from UK and overseas properties are reported separately for UK tax purposes and that the reporting of overseas income is considered in the overseas jurisdiction.

If further tax is payable as a result of making errors in reporting or omitting income and gains from a tax return, the interest and penalties may be payable in relation to the additional tax payable. If there is any doubt concerning any of the issues described, it would be advisable to engage a tax advisor to help you and ensure that the common errors described above are avoided.

5.14 What if I place listings on behalf of others and take a commission?

Within the Airbnb system, a host may list their own property for rent and also list properties that would be rented by other people and charge those people a fee for doing so. In this case, it should be made clear which rental income is appropriate for the applicable owner(s) and that the commission income is identified as taxable income and reported appropriately to the relevant tax authorities.

Example:

Ewan is a UK resident and has 6 listings on Airbnb in the South of France. One property is Ewan's second home which he occupies for part of the year as his holiday home and part of the year as a rental property. The property does not qualify for rent-a room- relief, nor does it satisfy the conditions for furnished holiday lets. The other five properties are owned by Ewan's parents, his friends and his neighbours and they are occupied and rented out on a similar basis as Ewan.

However in order to simplify things, Ewan helps all the other owners with their rental listings and takes an amount of 25% of the gross rents as a commission.

Ewan will need to identify the rent, expenses and Airbnb charges that are relevant to himself and the other owners, so that all recipients of rental income can ensure that it can be reported to the relevant tax authorities (according to their individual tax circumstances) on their personal tax returns.

Ewan also needs to bear in mind any tax implications if he is viewed as acting as an 'agent' for the other owners. He will need to consider his position regarding the commissions received and should take advice as to whether this should be regarded as taxable income both in the UK and in France (if relevant).

Appendix A Finance costs – position from 6 April 2017

There has been a significant change to the availability of income tax relief for finance costs, including mortgage interest and costs of arranging and obtaining finance, effective from 6 April 2017 and is being gradually implemented until 6 April 2020. Under the new rules, individuals are no longer able to claim tax relief for finance costs, such as mortgage interest, when calculating the amount of rental profit on which tax is due.

Instead, income tax relief will be available at the basic rate (currently 20%) of the finance costs incurred. This credit will be claimed as a deduction against the landlord's total income tax liability, it will no longer be a deduction of an expense from rental income. These changes will not however apply to properties which qualify as Furnished Holiday Lettings (see Section 4).

The restriction will apply as follows:

- 2017/18 – allowable deduction restricted to 75% of finance costs – basic rate deduction on the remaining 25%
- 2018/19 – allowable deduction restricted to 50% of finance costs – basic rate deduction on the remaining 50%
- 2019/20 – allowable deduction restriction to 25% of finance costs – basic rate deduction on the remaining 75%
- 2020/21 – no deduction for finance costs – basic rate deduction on finance costs incurred

These changes may affect the cash flow and profitability of the rental income and for further details on this and how this may affect the taxation of your rental income, it is advised that you should contact a tax adviser.

Cash basis

When using the cash basis for trading income (i.e. not property rental income), the amount of loan interest incurred for business purposes which may be set against income in one tax year is capped at £500. However this cap does not apply for property letting income, but a different restriction is applied where the value of the loans outstanding (L) exceeds the value of the let properties (V) at the end of the tax year:

- L = the business portion of all loans, so where a loan is partially used for a private purpose, only the business portion of loan capital is considered
- V = market value of the properties when first let, plus the cost of any capital improvements, which have not been deducted when calculating the profits of the business

The allowable costs of the loan are reduced by the fraction: V / L . This reduction applies before any reduction of finance costs relating to letting of residential property which applies from 6 April 2017.

Appendix B Resident and Domicile for UK Tax purposes

Residence

An individual's UK income tax and capital gains tax position will primarily depend on their UK tax residence status. Individuals who are regarded as resident in the UK are initially taxable on their worldwide income and capital gains.

Under current rules, individuals who are regarded as non-resident in the UK are liable to UK income tax on their UK source income and from 6 April 2015 are liable to UK capital gains tax on the disposal of UK residential property. It is therefore important for an individual to determine their UK tax residence status to determine their liability to UK tax.

The Finance Act 2013 introduced a test of personal tax residence which is defined explicitly in legislation for the first time. This Statutory Residence Test (SRT) applies from 6 April 2013 onwards. Further information may be obtained from HMRC website. <https://www.gov.uk/tax-foreign-income/residence>

Domicile

Domicile is a separate concept from residence and is a complex area. There is no strict definition of domicile however it is generally regarded as the country where an individual intends to remain for the rest of their life.

New legislation regarding the taxation of non UK domiciles was introduced in the Finance (No.2) Act 2017 which is effective from 6 April 2017. Under these new rules, a non UK domiciled individual will be deemed domiciled for UK tax purposes in the following circumstances:

- Individuals who were born in the UK and have a UK domicile of origin but acquired a domicile of choice elsewhere will be deemed domiciled whenever they are tax resident in the UK. A short grace period will apply for UK inheritance tax purposes.
- Individuals who are non UK domiciled will be deemed domiciled for all UK tax purposes if they have been resident in the UK in at least 15 out of the previous 20 tax years.

Remittance Basis

Individuals who are regarded as resident in the UK are initially taxable on their worldwide income and capital gains, called the arising basis of taxation. The remittance basis of taxation is available to individuals who are regarded as not domiciled in the UK. Under the remittance basis, an individual is taxable on their UK source income and capital gains, but is only taxable in the UK on their overseas income and capital gains to the extent that the funds are remitted to the UK.

The above new domicile rules apply here and if an individual is a deemed UK domiciled they will not be able to use the remittance basis.

The taxation of non-domiciles in the UK and the availability of the remittance basis is a complex area which may not be advantageous in all cases. Where hosts consider that this may be relevant to them they should consider their position carefully and take specialist advice where appropriate. Further information may be found at this link at HMRC website.

[https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/464664/RDR1_F
B15_updates_RB_and_CGT.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/464664/RDR1_F
B15_updates_RB_and_CGT.pdf)

Appendix C Personal tax rates 2018 and 2019

Personal Tax Rates and Allowances - tax years 2017/2018 and 2018/2019

	2017/2018	2018/2019
Income Tax Rates (Non-savings income)		
Basic Rate	First £33,500 @ 20%	First £34,500 @ 20%
Higher Rate	Between £33,501 - £150,000 40%	Between £34,501 - £150,000 40%
Additional Rate	Excess of £150,000 45%	Excess of £150,000 45%
Personal Allowance*	£11,500	£11,850
Total income Limit **	£100,000	£100,000

*A larger personal allowance used to be available for individuals born before 1948, however since the 2016/17 tax year this is no longer available.

**The personal allowance reduces where the individual's income is above this limit by £1 for every £2 above the limit. Therefore, for the 2017/18 tax year, if an individual earned in excess of £123,000 they would have no personal allowance.

Appendix D Common sections in the tax return

A tax return must contain details of all income, gains and reliefs to be claimed for the year in question.

The Self-Assessment tax return form SA100 is divided into several sections. There are also a number of supplementary pages to include in addition to the SA100. Some of the more common sections of the SA100 and supplementary pages are illustrated below.

Form SA100

Name, address, national insurance number (NINO) and Unique Taxpayers Reference (UTR) number are inserted on the front page of the SA100.



Tax Return 2017

Tax year 6 April 2016 to 5 April 2017 (2016-17)

UTR
NINO
Employer reference
Date
HM Revenue and Customs office address

Issue address

For Reference

Telephone

Your tax return

This notice requires you, by law, to make a return of your taxable income and capital gains, and any documents requested, for the year from 6 April 2016 to 5 April 2017.

Deadlines

- We must receive your tax return by these dates:
- if you are using a paper return - by 31 October 2017 (or 3 months after the date of this notice if that's later), or
 - if you are filing a return online - by 31 January 2018 (or 3 months after the date of this notice if that's later)
- If your return is late you will be charged a £100 penalty. If your return is more than 3 months late, you will be charged daily penalties of £10 a day. If you pay late you will be charged interest and a late payment penalty.

Most people file online

It's quick and easy to file online. Get started by going directly to our official website by typing www.tax.service.gov.uk/account/sign-in into your internet browser address bar.

Do not use a search website to find HMRC services online. If you haven't sent a tax return online before, why not join the 85% of people who already do it online? It's easy, secure and available 24-hours a day and you can also sign up for email alerts and online messages to help you manage your tax affairs.

To file on paper, please fill in this form using the following rules:

- enter your figures in whole pounds - ignore the pence
- round down income and round up expenses and tax paid, it is to your benefit
- if a box does not apply, please leave it blank - do not strike through empty boxes or write anything else

Starting your tax return

Before you start to fill it in, look through your tax return to make sure there is a section for all your income and claims - you may need some separate supplementary pages (see page TR 2 and the Tax Return notes). To get notes and helpsheets that will help you fill in this form, go to www.gov.uk/self-assessment-forms-and-helpsheets

Your personal details

<p>1 Your date of birth - it helps get your tax right DD MM YYYY</p> <div style="border: 1px solid black; display: inline-block; width: 100px; height: 20px; margin-bottom: 5px;"></div> <div style="border: 1px solid black; display: inline-block; width: 100px; height: 20px; margin-bottom: 5px;"></div> <div style="border: 1px solid black; display: inline-block; width: 100px; height: 20px;"></div>	<p>3 Your phone number</p> <div style="border: 1px solid black; display: inline-block; width: 150px; height: 20px; margin-bottom: 5px;"></div> <div style="border: 1px solid black; display: inline-block; width: 150px; height: 20px;"></div>
<p>2 Your name and address - if it is different from what is on the front of this form, please write the correct details underneath the wrong ones and put the date you changed address below DD MM YYYY</p> <div style="border: 1px solid black; display: inline-block; width: 100px; height: 20px; margin-bottom: 5px;"></div> <div style="border: 1px solid black; display: inline-block; width: 100px; height: 20px; margin-bottom: 5px;"></div> <div style="border: 1px solid black; display: inline-block; width: 100px; height: 20px;"></div>	<p>4 Your National Insurance number - leave blank if the correct number is shown above</p> <div style="border: 1px solid black; display: inline-block; width: 100px; height: 20px; margin-bottom: 5px;"></div> <div style="border: 1px solid black; display: inline-block; width: 100px; height: 20px;"></div>

This page will indicate which supplementary pages are required which are relevant to specific circumstances

What makes up your tax return

To make a complete return of your taxable income and gains for the year to 5 April 2017 you may need to complete some separate supplementary pages. Answer the following questions by putting 'X' in the 'Yes' or 'No' box.

1 Employment
Were you an employee, director, office holder or agency worker in the year to 5 April 2017? Please read the notes before answering.
Fill in a separate 'Employment' page for each employment, directorship, etc. On each 'Employment' page you complete, enter any other payments, expenses or benefits related to that employment. Say how many 'Employment' pages you are completing in the 'Number' box below.
Yes No Number

2 Self-employment
Did you work for yourself (on your 'own account' or in self-employment) in the year to 5 April 2017? (Answer 'Yes' if you were a 'Name' at Lloyd's.)
Fill in a separate 'Self-employment' page for each business. On each 'Self-employment' page you complete, enter any payments or expenses related to that business. Say how many businesses you had in the 'Number' box below.
Yes No Number

3 Partnership
Were you in partnership? Fill in a separate 'Partnership' page for each partnership you were a partner in and say how many partnerships you had in the 'Number' box below.
Yes No Number

4 UK property
Did you receive any income from UK property (including rents and other UK income from land you own or lease out)? Read the notes if you have furnished holiday lettings.
Yes No

5 Foreign
If you:
• were entitled to any foreign income, or income gains
• have, or could have, received (directly or indirectly) income, or a capital payment or benefit from a person abroad as a result of any transfer of assets
• want to claim relief for foreign tax paid
read the notes to decide if you have to fill in the 'Foreign' pages. Do you need to fill in the 'Foreign' pages?
Yes No

6 Trusts etc
Did you receive, or are you treated as having received, income from a trust, settlement or the residue of a deceased person's estate? This does not include cash lump sums/transfer of assets, otherwise known as capital distributions, received under a will.
Yes No

7 Capital gains summary
If you sold or disposed of any assets (including, for example, stocks, shares, land and property, a business), or had any chargeable gains, read the notes to decide if you have to fill in the 'Capital gains summary' page. If you do, you must also provide separate computations.
Do you need to fill in the 'Capital gains summary' page and provide computations?
Yes No Computation(s) provided

8 Residence, remittance basis etc
Were you, for all or part of the year to 5 April 2017, one or more of the following:
• not resident
• not domiciled in the UK and claiming the remittance basis
• dual resident in the UK and another country?
Yes No

9 Additional information
Some less common kinds of income and tax reliefs, for example Married Couple's Allowance, Life insurance gains, chargeable event gains, Seafarer's Earnings Deduction and details of disclosed tax avoidance schemes, should be returned on the 'Additional information' pages. Do you need to fill in the 'Additional information' pages?
Yes No

If you need more pages
If you answered 'Yes' to any of questions 1 to 9, please check to see if within this return, there is a page dealing with that kind of income etc. If there is not, you will need separate supplementary pages. Do you need to get and fill in separate supplementary pages?
Yes No
If 'Yes', go to www.gov.uk/self-assessment-forms-and-helplets to download them.

This will be the page which is likely to be relevant to rental income

This will be the page which is likely to be relevant to overseas rental income

Once the return is completed it should be signed and dated on page TR 8. Where a taxpayer files their tax return electronically then this is via HMRC Online Services.

Your name <input type="text"/>	Your Unique Taxpayer Reference (UTR) <input type="text"/>
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i To get notes and helpsheets that will help you fill in this form, go to www.gov.uk/self-assessment-forms-and-helpsheets

UK property details

This section is completed for any UK properties

1 Number of properties rented out <input type="text"/>	3 If you have any income from property let jointly, put 'X' in the box <input type="checkbox"/>
2 If all property income ceased in 2016-17 and you do not expect to receive such income in 2017-18, put 'X' in the box and consider if you need to fill in the 'Capital gains summary' page <input type="checkbox"/>	4 If you are claiming Rent a Room relief and your rents are £7,500 or less (or £3,750 if let jointly), put 'X' in the box <input type="checkbox"/>

Enter here if a claim for Rent a Room is required

Furnished holiday lettings (FHL) in the UK or European Economic Area (EEA)

Please read the 'UK Property notes' before filling in boxes 5 to 19. You need to fill in one page for UK businesses and a separate page for EEA businesses.

This section is completed for UK and/or EEA Furnished Holiday Lettings (see section 4)

5 Income - the amount of rent and any income for services provided to tenants £ <input type="text"/> . <input type="text"/> <input type="text"/>	13 Adjusted profit for the year (if the amount in box 5 + box 10 + box 11 minus (boxes 6 to 9 + box 12) is positive) £ <input type="text"/> . <input type="text"/> <input type="text"/>
6 Rent paid, repairs, insurance and costs of services provided - the total amount £ <input type="text"/> . <input type="text"/> <input type="text"/>	14 Loss brought forward used against this year's profits - if you have a non-FHL property business loss - read the notes £ <input type="text"/> . <input type="text"/> <input type="text"/>
7 Loan interest and other financial costs £ <input type="text"/> . <input type="text"/> <input type="text"/>	15 Taxable profit for the year (box 13 minus box 14) £ <input type="text"/> . <input type="text"/> <input type="text"/>
8 Legal, management and other professional fees £ <input type="text"/> . <input type="text"/> <input type="text"/>	16 Loss for the year (if the amount in boxes 6 to 9 + box 12 minus (box 5 + box 10 + box 11) is positive) £ <input type="text"/> . <input type="text"/> <input type="text"/>
9 Other allowable property expenses £ <input type="text"/> . <input type="text"/> <input type="text"/>	17 Total loss to carry forward £ <input type="text"/> . <input type="text"/> <input type="text"/>
10 Private use adjustment - read the notes £ <input type="text"/> . <input type="text"/> <input type="text"/>	18 If this business is in the EEA, put 'X' in the box - read the notes <input type="checkbox"/>
11 Balancing charges - read the notes £ <input type="text"/> . <input type="text"/> <input type="text"/>	19 If you want to make a period of grace election, put 'X' in the box - read the notes <input type="checkbox"/>
12 Capital allowances - read the notes £ <input type="text"/> . <input type="text"/> <input type="text"/>	

1 Your name <input type="text"/>	2 Your Unique Taxpayer Reference (UTR) <input type="text"/>
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i You must enclose your computations, including details of each gain or loss, as well as filling in the boxes.

Residential property (and carried interest) Please read the notes before filling in this section.

Property disposal gains are entered here

Property disposal losses are entered here

<p>3 Number of disposals <input type="text"/></p> <p>4 Disposal proceeds £ <input type="text"/> . <input type="text"/><input type="text"/></p> <p>5 Allowable costs (including purchase price) £ <input type="text"/> . <input type="text"/><input type="text"/></p> <p>6 Gains in the year, before losses - do not include any gains subject to non-resident Capital Gains Tax £ <input type="text"/> . <input type="text"/><input type="text"/></p> <p>7 Losses in the year - do not include any losses incurred on the disposal of a property subject to non-resident Capital Gains Tax £ <input type="text"/> . <input type="text"/><input type="text"/></p> <p>8 If you are making any claim or election, put the relevant code in the box <input type="text"/></p>	<p>9 If you are chargeable to non-resident Capital Gains Tax (NRCGT) for the disposal of a UK residential property or properties during 2016-17, put the total gain chargeable to NRCGT after losses, or loss, in the box £ <input type="text"/> . <input type="text"/><input type="text"/></p> <p>10 Tax on gains in box 9 already charged £ <input type="text"/> . <input type="text"/><input type="text"/></p> <p>11 If, during 2016-17, you submitted a Real Time Transaction Tax return(s) for the disposal of a residential property or properties, put the overall gain or loss in the box - include the individual amounts of gains in box 6 and losses in box 7 £ <input type="text"/> . <input type="text"/><input type="text"/></p> <p>12 Tax on gains in box 11 already charged £ <input type="text"/> . <input type="text"/><input type="text"/></p> <p>13 Carried interest £ <input type="text"/> . <input type="text"/><input type="text"/></p>
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Other property, assets and gains Please read the notes before filling in this section.

Property disposal proceeds, costs and gains before losses are entered here

<p>14 Number of disposals <input type="text"/></p> <p>15 Disposal proceeds £ <input type="text"/> . <input type="text"/><input type="text"/></p> <p>16 Allowable costs (including purchase price) £ <input type="text"/> . <input type="text"/><input type="text"/></p> <p>17 Gains in the year, before losses - do not include attributed gains included in box 18 £ <input type="text"/> . <input type="text"/><input type="text"/></p> <p>18 Attributed gains where personal losses cannot be set off £ <input type="text"/> . <input type="text"/><input type="text"/></p>	<p>19 Losses in the year £ <input type="text"/> . <input type="text"/><input type="text"/></p> <p>20 If you are making any claim or election, put the relevant code in the box <input type="text"/></p> <p>21 If, during 2016-17, you submitted a Real Time Transaction Tax return(s) for the disposal of an asset of this type, put the overall gain or loss in the box - include the individual amounts of gains in box 17 and losses in box 19 £ <input type="text"/> . <input type="text"/><input type="text"/></p> <p>22 Tax on gains in box 21 already charged £ <input type="text"/> . <input type="text"/><input type="text"/></p>
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