

UNITED KINGDOM – TAX CONSIDERATIONS FOR SHORT TERM LETTINGS

This is a guide to some of the tax requirements that might apply when you provide accommodation for short-term rental in the UK.

Tax can be tricky and it is important that you keep up to date with your tax obligations and remain tax compliant. The timely preparation, filing and payment of taxes are your responsibility.

If you are an individual supplying short-term accommodation in the UK, you should make sure that you understand each of the following types of taxes, and pay the ones that apply to you;

- Income taxes
- Value added tax (VAT)

Please understand that this information is not comprehensive, and is not intended to be legal advice. If you are unsure about your local tax obligations, we encourage you to check this with official local sources, or to seek advice from qualified professionals.

Please note that we do not update this information in real time, so you should confirm that the laws or procedures have not changed recently.

INCOME TAX

Where you earn income in the UK, it is likely that you will have to pay tax on this income to Her Majesty's Revenue and Customs (HMRC). Below is a brief outline of tax that may arise on income earned from short-term lettings in the UK and some information on how this tax can be paid over to the HMRC.

UK's tax year runs from 6 April to 5 April (e.g. 6 April 2017 to 5 April 2018).

UK rules applicable to short-term rental income.

Income from short-term rentals will be treated as ordinary rental income, unless this income meets the Furnished Holiday Accommodation (FHA) criteria. More information on the FHA criteria can be found on the HMRC website [here](#).

Where the FHA criteria are met, the following rules apply to the income:

- There is no restriction on mortgage interest relief (see below).
- The income is treated as earnings. Earnings are required to claim relief for pension contributions.
- Capital Allowances are available.
- There is potential to claim certain CGT reliefs (gift relief, entrepreneurs relief etc.) which aren't available on normal rental properties.

UK income tax rates.

UK income tax rates are as follows:

- There is a tax free personal allowance available on the first £11,850 of income.
- The next £34,500 is taxable at 20%
- Then income up to £150,000 is taxable at 40%
- Income above £150,000 is taxable at 45%

The tax free personal allowance of £11,850 is reduced for those earning above £100,000.

Reporting tax in UK.

A UK income tax return can be filed online using the HMRC website (please see link to the HMRC website [here](#)). A paper form can also be posted to the appropriate office, details of which are available on the HMRC website.

For complex tax returns, additional software may be required in order to file online. Where you have any doubt regarding your taxes, you should consider whether to seek advice from a professional tax advisor or accountant to assist in completing your tax return.

Reporting tax - filing deadline.

If you are filing a tax return online the filing deadline is 31 January following the end of the tax year. For example, the tax return for the period 6 April 2017 to 5 April 2018 will be due for filing on or by 31 January 2019.

Paper returns are due for filing on or by 31 October following the end of the tax year. For example, the tax return for 6 April 2017 to 5 April 2018 will be due on or by 31 October 2018.

Reporting tax - payment deadline.

If you are liable to pay tax after filing your income tax return, payment will be due on or by 31 January of the year following the end of the tax year. For example for liabilities arising in the period 6 April 2017 to 5 April 2018, payment will be due by 31 January 2019. This payment deadline applies to returns filed online and paper returns.

HMRC can also require an additional preliminary payment on account of income tax, due on 31 January and 31 July each year in cases where tax is not withheld at source on over 80% of an individual's income (for example, where 80% of an individual's income received is taxed outside of the PAYE system).

UK Tax Authority contact details.

Her Majesty's Revenue and Customs (HMRC) website:

<https://www.gov.uk/government/organisations/hm-revenue-customs/contact/income-tax-enquiries-for-individuals-pensioners-and-employees>.

Tax allowances and deductions.

You may be entitled to apply tax free allowances to your rental income and/or claim other tax reliefs and deductions on rental income.

Rental income less than £1000. If your total rental income is below £1,000, you do not have to report the rental income on your UK tax return. Please see [here](#) for more information.

Rent-A-Room Scheme. There is a separate allowance available where you rent a room in the property in which you normally reside. If you qualify and your total rental income is below £7,500, then you do not have to report the rental income on your UK tax return. If the property is jointly owned, then the £7,500 allowance is reduced to £3,750. Please see [here](#) for more information.

Please note that you can only claim one of the allowances mentioned above. It is not possible to claim both.

Typical expenses that can be deducted from short-term rental income

Where income is deemed to be rental income you can deduct costs directly incurred in the provision of the short-term let. This can include, but is not limited to:

- Mortgage interest*
- Agents fees
- Home insurance
- Repairs/redcoration (with no capital improvement)
- Replacement of domestic items (i.e. a new washing machine)

**In the tax year 2018/2019, 50% of the mortgage interest is available as a deduction against rental income with the remaining 50% of mortgage interest available to reduce your tax at the 20% rate. By the tax year 2020/2021, 0% will be available as a deduction against rental income, and 100% of mortgage interest will be available to reduce your tax at the 20% rate. Please see [here](#) for more information.*

As mentioned above, if the income from your short-term rental meets the FHA criteria, different tax rules will apply to the income.

Deductions available for tax depreciation (e.g. capital allowances / wear and tear).

There is no deduction available on standard rental property income for wear & tear, depreciation or capital allowances.

However, capital allowances are available on FHA properties. The rules around capital allowances can be complicated, but currently there is a £200,000 annual investment allowance, which provides relief at 100%. This means that the first £200,000 of expenses can be deducted from your rental receipts when calculating the profit. This allowance varies from year to year.

UK income tax obligation for non-resident individuals.

If you are non-resident and in receipt of UK rental income, this income falls within the scope of UK income tax and must be reported to the HMRC, unless the HMRC has agreed that this is not required. For example, if your only income was rental income and this was below your tax free personal allowance then HMRC may agree that you are not required to file a UK tax return.

You must however get the prior approval of HMRC before this option will apply to you.

UK income tax obligations for a UK individual in receipt of foreign rental income.

UK residents can be taxed under the arising basis or the remittance basis. If you are taxable under the arising basis you are required to report your worldwide income on your UK tax return.

However, if you are taxable under the remittance basis, overseas income is not taxable or reportable in the UK so long as it is not remitted to the UK.

General property taxes payable.

Council tax is levied on properties and must be paid to the local council. The amounts are set by each council and will vary depending of the size and location of the property.

Specific property taxes payable on properties that are let for short terms.

Councils have the discretion to provide a discount of up to 50% on FHA properties. You will need to contact your council to see whether this is possible.

Capital taxes in the UK.

If you are a UK resident you are subject to capital gains tax on gains made from the sale of property. Gains made on the sale of a property must be reported on the standard UK income tax return and are subject to the same payment and filing deadlines as outlined above.

Please note that relief is available where you dispose of your primary home. Please see [here](#) for more information.

If you are non-resident and you are selling a UK property, you must submit a separate non-resident capital gains tax return within 30 days of completion of the sale. Payment is also due within 30 days of completion, however if you are filing a standard UK tax return, payment can be deferred until the standard deadline of 31 January.

Sample Tax Computation 1		
Laura owns a 2 bedroom house. She lets the entire house on a short-term basis.		
Laura received total gross rental income in 2018 of £12,000.		
Laura incurred the following expenses in relation to this house in 2018: house insurance £500, local property tax £350, mortgage interest £5,500 and electricity/gas £600.		
		£
Gross rental income		12,000
Less allowable expenses:		
	House insurance	(500)
	Property tax	(350)
	Mortgage interest*	(2,750)
	Electricity/gas	(600)
Net taxable rental income		7,800
*Only 50% of mortgage interest is allowable as a deduction. The remaining 50% is used to reduce your tax at the 20% rate.		

Sample Tax Computation 2		
Laura owns a 2 bedroom house which she lives in alone. She lets one bedroom in the house each weekend.		
Laura received total gross income in 2018 of £12,000.		
		£
Gross rental income		12,000
Less Rent a Room relief		(7,500)
Net taxable rental income		4,500

VALUE ADDED TAX

Value added taxes can be complicated, and you should take time to understand the rules as they apply to you and your particular situation.

Broadly speaking, Value-Added Tax (VAT) in the UK is a tax on consumption. Most goods and services supplied in the UK are subject to VAT.

A person who supplies goods and/or services in the UK may have to charge VAT and pay this to HMRC. As with all taxes, we encourage you to consult with a tax advisor regarding your potential VAT obligations in the UK.

If you are currently renting a room to guests, you may be required to apply VAT to the amount you charge guests and to pay this VAT amount to the UK tax authorities. As Airbnb does not supply accommodation for short-term rental, the host is responsible for determining whether VAT should be applied to the rental fee.

Do I need to collect any VAT from guests if I am letting short-term accommodation in the UK?

In general, individuals who are considered to be in business in the UK need to charge VAT on their supplies, once they meet the criteria for VAT registration.

You are required to register for VAT if you supply or expect to supply services to the value of £85,000 in any continuous period of twelve months or you expect that the total value of your supplies in the next 30 days will breach this threshold. As such, where you supply short term rental accommodation and you breach this threshold, you should register for VAT.

If you are an individual who is not resident in the UK but your accommodation is located in the UK, then you should also register for UK VAT, as no registration threshold applies to you.

We encourage you to consult a tax advisor if you need assistance in determining whether you need to register for and charge UK VAT.

For further guidance on registering for VAT, please see the HMRC website.

VAT applies to me. How do I determine how much tax I need to collect from my guests?

VAT rates differ per country and change periodically. We recommend you to check on a regular basis with the local tax authority to get the most up to date VAT rates for the country where you are required to pay VAT.

On the date this document was written the UK VAT rate applicable to supplies of holiday accommodation was 20% in the UK. Holiday accommodation is any accommodation “advertised or held out as suitable for holiday or leisure use”.

However if you let holiday accommodation during the off-season for more than 28 days in an area where holiday trade is clearly seasonal (generally considered to be outside of the period Easter to the end of September), then you may not have to charge VAT to your guests, provided certain conditions are met. It should be noted that certain areas of the UK are not regarded as having a seasonal holiday trade.

There are other VAT rates currently in force in the UK, so we recommend that you confirm with a local tax adviser the VAT rate applicable to your supplies.

VAT applies to me. How do I collect VAT from guests?

If you determine that you need to charge VAT on the supplies that you make to guests, please keep in mind that you have to collect this VAT from your guests and report and remit this VAT on a periodic VAT return. It is necessary to file and pay VAT every 3 months. The deadline for the submission for the VAT return is one month and 7 days from the end of the quarterly VAT period. You can submit VAT returns online, via a specific account created with HMRC (often referred to as the 'Government Gateway Account'). The VAT payment is required to be made on the same day the VAT return is required to be filed.

There are additional VAT schemes available which are designed to simplify the VAT process for small businesses, however these are exceptions to the general rules and we recommend that local tax advice is sought in order to determine if these schemes apply to you.

Some formalities, such as issuing a receipt or an invoice to your guests, may be required. Please find more information [here](#).

For further guidance on filing returns, please see the HMRC website.

The price presented for the accommodation will be treated as VAT inclusive, unless it is explicitly indicated as VAT exclusive. We recommend that you check your obligations in terms of pricing and the applicable invoice requirements with a local tax advisor.