

*This guide has been prepared by an independent third-party firm.*

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## **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
- Capital Gains Tax (CGT)
- Value added tax (VAT)

Please understand that this information is to help you find the advice you might need; it is not intended to be comprehensive, and is not legal or tax advice. We encourage you to check official local guidance, and seek independent advice from a qualified professional, where you need support with understanding your tax obligations.

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

### **INCOME TAX**

If 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, some information on how this tax can be paid to the HMRC, and where you can find more information about this.

The **UK's tax year** runs from 6 April to 5 April (e.g., 6 April 2021 to 5 April 2022).

### **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>

## **UK rules applicable to short-term rental income**

Income from short-term rentals is treated as ordinary rental income, unless it 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:

- There is no restriction on mortgage interest relief (see below).
- The income is treated as earnings; required to claim relief for pension contributions.
- Capital Allowances are available for items of furniture, etc.
- 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 is payable on an individual's total earnings in a year, which includes income from the rental of property. UK income tax rates are as follows (tax year 6 April 2021 - 5 April 2022):

- There is a tax free personal allowance available on the first £12,570 of income (based on 2021/22 rates)
- The next £37,699 (based on 2020/21 thresholds) is taxable at 20%
- Income up to £150,000 is taxable at 40%
- Income above £150,000 is taxable at 45%

The tax free personal allowance of £12,570 is reduced by £1 for every £2 of earnings over £100,000. As a result, for earnings between £100,000 and £125,000 the effective rate of tax on income is 60%.

## **Reporting tax in the UK**

A UK income tax return should be filed online using the HMRC website (please see link to the HMRC website [here](#)). In some limited circumstances an individual can still complete a paper tax return which must then be posted to the appropriate office. You can find details of the office to which to send any paper return on the HMRC [website](#).

For complex tax returns, specific software may be required in order to file online. If you have any doubt regarding your taxes, you should consider seeking 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 2021 to 5 April 2022 will be due for filing

on or by 31 January 2023.

Paper returns are due for filing on or by 31 October following the end of the tax year for those individuals eligible to complete a paper return - note this is limited. For example, the tax return for the period covering 6 April 2021 to 5 April 2022 will be due on or by 31 October 2022.

If you are earning property income for the first time and do not normally submit a tax return, you will need to apply to HMRC to register for self-assessment. The registration application for self-assessment must be made before 5 October following the end of the tax year you first start earning rental income.

### **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 2021 to 5 April 2022, payment will be due by 31 January 2023. This payment deadline applies to returns filed online and paper returns.

If your total tax liability for a year is more than £1,000 and less than 80% of the total tax liability for the year has been collected at source (e.g., collected through PAYE on employment income) HMRC can also require an additional preliminary payment on account of income tax for the following year. Payments on account are due on 31 January of the tax year (*i.e.*, at the same time as your tax liability for the previous year) and 31 July following the end of the tax year. If you have made payments on account, the final tax payment due will be reduced by the payments on account you have made. This may result in a refund becoming due from HMRC (where the payments on account that have been made are greater than the tax liability calculated at the end of the year).

### **Tax allowances and deductions**

There are broadly three methods of deductions you can claim against your property income. These are set out below.

#### 1- Property Allowance

If your total rental income is below £1,000, you do not have to report the rental income on your UK tax return. If your property income is above £1,000 but the expenses you have incurred in relation to the property are below £1,000 you can still claim the £1,000 property allowance against the property income. This reduces your taxable profit. However, if you choose to use the £1,000 property allowance you cannot deduct any other expenses from the income. Please see [here](#) for more information.

#### 2 - 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. Like with property allowance, if your income is over the rent-a-room allowance you can still choose to reduce the total income by £7,500 (or £3,750 if let jointly) and pay tax on the difference, rather than reduce your rental income by the actual expenses incurred. Please see [here](#) for more information.

### 3 - Claiming actual expenses

If you do not claim either of the above allowances, you may instead reduce the rental income received by the actual expenses you incur in relation to your property rental business.

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

Where rental income is received 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 (e.g. the Airbnb Service Fee)
- Home insurance
- Repairs/redecoration (as long as there has been no capital improvement)
- Replacement of domestic items (i.e. a new washing machine)
- Any professional fees incurred with the compliance or advice (as long as it is specifically incurred in relation to the property rental)

*For the tax year 2020/2021 all mortgage interest will be available only to reduce your tax at the 20% rate (i.e., if you are a higher or additional rate taxpayer there will be a restriction to the amount of mortgage interest tax relief allowable). 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 (including no restriction of the mortgage interest above).

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

There is no deduction available on standard rental property income for wear and 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 £1,000,000 annual investment allowance (for assets purchased between 1 January 2019 and 31 December 2021), which provides relief at 100%. This means that the first £1,000,000 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 a non-UK 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.

If you do not apply for the Non-Resident Landlord Scheme (NRLS) the paying agent (or the tenant if there is no property agent) has an obligation to deduct 20% tax on the rental income paid to you. You will still need to complete a tax return each year to report the income received and the tax deducted at source on the property. Where you have expenses to set against the property income you can therefore reclaim tax on the amount of expenses incurred in the year.

If you apply and are accepted onto the NRLS, rent can be received from tenants/agents gross of tax. A tax return will still need to be completed and tax paid, but you will have a cash flow advantage of receiving 100% of the rental income at the time it becomes payable.

### **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 (depending on your domicile). If you are taxable under the arising basis (most UK resident, UK domiciled individuals) you are required to report your worldwide income on your UK tax return. If you also pay tax on the same rental income in another country (for example the country that the property is situated) there may be relief from tax in either the UK or the other country under the terms of the double tax treaty between the UK and that country. This will ensure that tax is not paid twice on the same income.

If you are non-UK domiciled and able to be taxable under the remittance basis (which you will need to claim on your tax return), overseas income is not taxable or reportable in the UK as long as it is not remitted to the UK. This is a complex area and you should speak to your tax advisor for advice around this.

### **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 on the size and location of the property.

Usually ground rent is payable on property that is owned by leasehold (rather than freehold).

### **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 will be subject to CGT on gains made from the sale of property that has appreciated in value since you bought it. Gains made on the sale of a property after 6 April 2021 must be reported and tax paid within 30 days of the sale.

Any capital improvements that you have made on the property can usually be added to the cost you paid for the property, along with incidental costs of purchase and the stamp duty land tax you paid on purchase, when calculating the profit you make on the disposal. This will reduce the gain that is subject to CGT on sale.

Generally the first £12,300 (2021/22 threshold) of gains in a year are not taxable. For basic rate taxpayers (where your total income and gains are less than £50,000 in the year), the gain above £12,300 will be taxable at 18%. To the extent that your total income and gains are greater than £50,000 you will pay CGT on the gain at 28%.

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

If you are a non-resident and you are selling a UK property, you must submit a separate non-resident capital gains tax return. The deadline for the return is within 30 days of completion of the sale. Payment is also due within 30 days of completion.

| 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 2021/22 of £12,000.  |                 |        |
| Laura incurred the following expenses in relation to this house in 2021/22: house insurance £500, local council tax £350, mortgage interest £5,500 and electricity/gas £600. |                 |        |
|  |                 | £      |
| Gross rental income  |                 | 12,000 |
| Less allowable expenses:   |                 |        |
|  | House insurance | (500)  |

|  |                    |         |
|--|--------------------|---------|
|  | Council tax        | (350)   |
|  | Mortgage interest* | (5,500) |
|  | Electricity/gas    | (600)   |
|  |                    |         |
| Net taxable rental income  |                    | 5,050   |
|  |                    |         |
| *for 2021/22 only basic rate tax relief can be claimed on the whole amount of any mortgage interest. Therefore if Laura's total income is more than £50,000 the mortgage interest allowable will be limited. |                    |         |

| 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 2021/22 of £12,000.   |  |         |
|  |  | £       |
| Gross rental income  |  | 12,000  |
| Less Rent a Room relief  |  | (7,500) |
|  |  |         |
| Net taxable rental income  |  | 4,500   |

### **VALUE ADDED TAX**

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

VAT is a tax chargeable when you supply certain goods and services as a business activity. Most goods and services supplied in the UK are subject to VAT, which is calculated as a percentage (the standard rate is 20%) of the amount paid for the goods and services. As a government response to the COVID-19 pandemic, the UK government introduced a temporary

reduced rate of 5% applicable on certain supplies relating to hospitality, hotel and holiday accommodation effective from 15 July 2020 until 30 September 2021. From 1 October 2021, the temporary reduced rate increased to 12.5% and will be in force until 31 March 2022. Holiday accommodation is any accommodation “advertised or held out as hotel accommodation or as suitable for holiday or leisure use”.

If you are supplying a rental property (or a room within a property) to guests, and this property is located in the UK, you may be required to charge UK VAT on the rental and pay this VAT to HMRC. This applies even if you are not a UK resident. You should discuss with a tax advisor if you are unsure about your VAT obligations in the UK.

As you, and not Airbnb, supply the accommodation direct to guests, you, the host, are responsible for determining whether VAT should be applied to the rental fee you charge guests. You should ensure you understand your VAT obligations as the supplier of the accommodation to guests.

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

If you supply your accommodation to guests in the UK as part of a business activity you may need to charge VAT to guests and pay this to HMRC, once you meet the VAT registration threshold.

If you are established in the UK (*i.e.*, a UK resident, if you are an individual), you are required to register for VAT when the value of your taxable supplies in the UK exceeds £85,000 in any continuous period of twelve months or if you expect that the total value of your taxable supplies in the next 30 days alone to exceed this threshold. Short-term rental accommodation of a property located in the UK will generally be a taxable supply and rental income will generally be included in calculating whether you have exceeded the threshold requiring you to register for VAT (along with any income from other taxable supplies you make). The UK VAT registration threshold may be subject to change in the future and you should check on HMRC's website, or with your tax advisor, for the current threshold.

If you are not established in the UK (*i.e.*, not a UK resident, if you are an individual) there is no threshold before you need to register for UK VAT. This means you may be required to register for UK VAT (if you are not already UK VAT registered) when you make your first supply of UK accommodation or if you expect to make such a supply in the next 30 days.

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

Further guidance on registering for VAT can be found on the HMRC [website](#).

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



VAT rates differ in each country and change periodically. We recommend you 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.

There are special rules for holiday accommodation supplied for more than 28 days. If residential accommodation is supplied 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), the entire charge to your guest may be exempt from VAT. Exempt supplies do not count towards your VAT registration threshold and VAT should not be charged on this supply. However, you are not entitled to recover any VAT on your costs related to making that exempt supply. This does not apply in certain areas of the UK that are not regarded as having a seasonal holiday trade, like London and Edinburgh.

This is a complex area and if you consider that you may fall within this category of rentals, you should confirm the treatment with your tax adviser.

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

The price you advertise for the accommodation rental must be VAT inclusive. This means if you are required to charge VAT and the supply is subject to the temporary reduced rate, 1/9th of the total amount you collect from guests (*i.e.*, 12.5% of the net amount) is VAT that you must pay to HMRC. Where the supply is subject to the standard rate of VAT, the VAT fraction (the amount you must pay to HMRC from the total amount collected) will be 1/6th. VAT is paid to HMRC by submitting periodic VAT returns and paying the net amount (*i.e.* VAT on your sales less VAT on your costs) due to HMRC. You may be able to submit your VAT return on a monthly, quarterly or annual basis depending on your turnover. You must generally submit VAT returns online, via a specific account created with HMRC (often referred to as the 'Government Gateway Account') and using specific software (as required by the Making Tax Digital for VAT obligations). The payment has to be made 1 month and 7 days after the return is filed to HMRC's bank account using details provided by HMRC.

There may be formalities you need to comply with, such as issuing an invoice to your guests. You can find more information [here](#). You will also have to meet certain records requirements, which generally include keeping records digitally and maintaining digital links between those records and the VAT returns. We recommend that you check these obligations with your tax adviser.

Further guidance on filing returns can be found on the HMRC website [here](#). There are additional VAT schemes available which are designed to simplify the VAT process for small businesses (*e.g.*, the Flat Rate Scheme), however these are exceptions to the general rules and you should speak to your local tax adviser to determine if these schemes apply to you.