Property Rental Expenditure Costs Allowed for Tax

All Properties

Delia Orme

Date: 20 February 2018

Property costs are divided into two categories. The first is capital expenditure which is added to the purchase price and kept for use in the Capital Gains Tax computation when the property is sold. This includes the associated costs of purchase being stamp duty and legal fees.

The second type of expenditure is the running costs of the property business which enable you to earn the rent. These costs have to be incurred wholly and exclusively for the purposes of the rental businesses. These are the costs which are deductable in calculating your net rental income for your tax return. These costs are available as a deduction from all types of property income. Included are:

- agent's fees,
- advertising for tenants,
- council tax and water rates,
- decorating, gardening, repairs and maintenance
- finance/mortgage interest – subject to restrictions for residential properties (see below)
- ground rents,
- property and contents insurance,
- certain legal fees,
- travel by you to inspect the property regularly at 45p per mile,
- a proportion of our accountancy fees,
- a proportion of your home office costs,

In addition the cost of repairs or replacement of items integral to the building (such as fitted kitchens, bathroom suites or boilers) are allowable provided such repairs or replacements involve replacing the asset into the condition that it was originally. However, if replacement involves technological advancement it may be considered as repairs for example replacement of single glazed windows to double glazed.

Capital improvements which are not deducted from rents include:

- the original cost of installing kitchens, bathrooms suites and structural changes etc.

- the extra cost of replacing a fixture with an improved version; for example, where a worn out but basic, cheap bathroom suite is replaced with an expensive, high quality suite; you can only deduct the cost of replacing like with like.

The original cost of installation means either,

the cost of installing the assets for the first time in a new property, or

the cost of replacing worn out assets in an old property that has been bought to let, or

which you are converting to let.

The cost of capital improvements is allowed in the capital gains tax computation on sale of the property.

Residential Furnished and Unfurnished Property

From 6 April 2016, wear and tear allowance has been abolished and replacement of domestic items relief was introduced, which means that the costs will only be allowed if the landlord incurred a cost to replace the furniture and white goods.

Therefore the replacement costs of such items as the following will be allowed in full:-

- beds,
- chairs,
- wardrobes,
- living room furniture,
- white goods — refrigerator, cooker, washing machine etc.
- carpets, rugs and floor coverings,
- cutlery, crockery, cooking utensils.

Mortgage and Loan Interest

For all years up to and including 2016/17 a deduction is allowed in full for interest paid on mortgages and loans taken out for the purposes of a rental business. From April 2017 it is intended that only part of any loan interest paid will be allowable in full, the remaining portion will be given tax relief at basic rate only. The restrictions will be phased in over a period of 4 years, 25% in the first year, increasing to 100% by year 4. In essence this means that by year 4 only basic rate tax relief will be given on total loan interest paid as follows:-

Tax Year	Loan interest Allowable in full	Loan Interest Allowable at basic rate
2017/18	75%	25%
2018/19	50%	50%
2019/20	25%	75%
2020/21	0%	100%

The mechanism for a higher rate tax payer in 2017/18 can be illustrated as follows:

Rents before interest	10,000	
Less Interest	8,000	
Net profit	2,000	2,000
Tax calculation		
Rents before interest	10,000	
Less: interest eligible for full relief (£8,000 x 75%)		
	(6,000)	
Taxable property income	4,000	
Income Tax at 40%	1,600	
Less: interest relief restricted to basic rate		
(£8,000 x 25%) x 20%)	(400)	
Tax Due	1,200	1,200
Net Profit after tax		£800

Qualifying Furnished Holiday Lets

There are strict rules to qualify as a holiday letting business. Capital allowances are generally available in respect of machinery provided for use in furnished holiday lets.

Capital Gains Tax

Please remember that for any improvements to your property, the invoice should be retained to offset against the proceeds on the eventual sale of your property in the capital gains tax computation.

For further information please contact Delia Orme on 01483 533119.

Contact Us

By Phone

London:	+44(0)20 7240 9971
Guildford:	+44 (0)1483 533 119

By Post

London:	Imperial House, 8 Kean Street, London, WC2B 6AS
Guildford:	Friary Court, 13-21 High Street, Guildford, Surrey, GU1 3DL

Online

www.	alliotts.com
Twitter	@alliotts