



TAXbite – rent a room relief

ICAEW TAX FACULTY

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Renting a room in your own home

- Earn up to £7,500 tax free per annum
- Furnished accommodation
- Main or only residence
- Automatically applies
- Decide each year
- Otherwise...record property income and expenses on the property pages of the self assessment tax return

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Eligibility

- Rent a room relief applies to:
 - Letting a room to a lodger
 - Running a guest house/B&B
 - Activity amounts to a trade including provision of services
- The relief does not apply:
 - If the accommodation is not part of your main home
 - To unfurnished property
 - Where there is business use of the property
 - If you are living abroad at the time the property is let

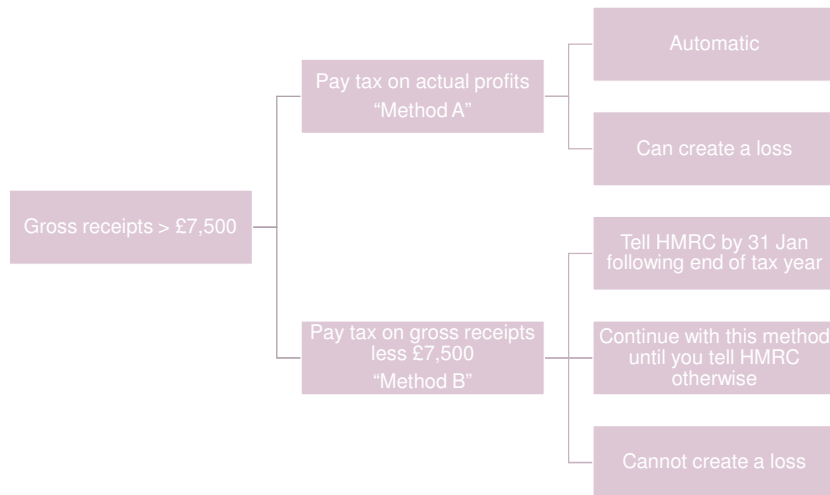
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Automatic relief – income below threshold

- No tax due (and nothing to declare) where GROSS receipts < £7,500
- Gross receipts:
 - rental income (before expenses)
 - any amounts you receive for meals, goods and services, such as cleaning or laundry
- Loss relief not available

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A choice – income above the threshold



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Allowable expenditure

- Where gross income > £7,500 the individual can deduct actual expenditure (unless election made to use rent a room)
 - legal fees for drawing up tenancy agreements or collecting debts, but not those connected with acquiring or disposing of properties;
 - letting or managing agents' fees;
 - advertising for tenants;
 - gardening, cleaning, and security services where relevant;
 - water rates and council tax, regional or district council tax in Scotland; and
 - heating and lighting costs
 - buildings and contents insurance
 - **replacement of domestic items**
 - **maintenance and repairs**
 - **interest and finance charges connected with loans to fund the property business**

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Interest and finance charges

- Interest on loans deductible provided the borrowing are W&E for the purposes of the rental
- From 6 April 2017 – restriction applies
 - Tax deduction blocked from 2020/21 and replaced with basic rate tax credit against income tax payable
 - Phasing in rules apply

Tax year	Proportion of finance costs blocked
2017/18	25%
2018/19	50%
2019/20	75%
2020/21 and later	100%

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Illustration

Carol receives rent of £40,000 per year from her let properties and pays interest charges of £36,000. She is also employed and has a salary of £35,000, on which she pays income tax at 20%. Carol's total tax liability for 2016/17 and 2020/21 is calculated as follows:

	2016/17	2020/21
Salary	£35,000	£35,000
Letting income	£40,000	£40,000
Interest deduction	(£36,000)	-
Total net income	39,000	£75,000
Less: personal allowance	(£11,000)	(£12,500)
Taxable income	£28,000	£62,500
Basic rate band limit	£33,500	£37,500
Tax charged at 20%	£5,600	£7,500
Tax charged at 40%	-	£10,000
Less tax credit on interest at 20%		(£7,200)
Total tax payable	£5,600	£10,300

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Further support

- ICAEW tax Faculty TAXguide 01/17 see <https://www.icaew.com/en/technical/tax/tax-faculty/taxguides>
- www.gov.uk

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