Tax on rental income

The rent you receive is taxable and you should notify HMRC if your rental income is between £1,000 and £2,500 a year. You must complete a tax return if your income is £10,000 or more before allowable expenses or between £2,500 and £9,999 after allowable expenses.

You can deduct expenses incurred on the day to day running of the property such as letting agent's fees, utility bills and insurance. The cost of repairs are allowable but not if the work done has moved beyond repairs and is instead improvements or extensions which increase the value of the property. It can be difficult to identify what is allowable and it is an area which HMRC may enquire into.

From 6 April 2020 relief for mortgage interest paid is restricted to the basic rate of income tax and is given as a reduction in tax liability rather than a deduction from rental income.

Spouses and civil partners who buy a property in joint names will be taxed on an equal share of the rental income. If one spouse pays tax at a higher rate you may wish to take advice on how the property should be held and income split.

Furnished holiday lets

The tax rules applying to properties that meet the conditions necessary to be furnished holiday lets are different and you may wish to obtain guidance if you own such a property.

GILLESPIE MACANDREW

Our Tax team

Our tax team can advise you on the steps that can be taken to pay the right amount of tax. We can also assist you in quantifying and reporting any liabilities to tax.

You can contact us at:
tax@gillespiemacandrew.co.uk

Find out how we can help you
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Our tax guide for buying, selling and renting property

How we can help

When you buy or sell your home, holiday home or buy to let property a charge to tax may arise. It is important to seek advice and be aware of any liabilities when planning for a move, rather than be caught out by an unexpected tax bill.

Tax when you buy your property

Land and Buildings Transaction Tax (LBTT) is payable when you buy a house in Scotland for £145,000 or more. Tax is charged on a progressive scale with rates rising to 12% on purchase prices over £750,000.

Reliefs may be available if you are a first time buyer or are buying more than one dwelling from the same seller.

Additional Dwelling Supplement (ADS) is charged when you buy an additional dwelling worth £40,000 or more. The charge which is 8% of the purchase price will apply unless you are replacing your main residence. ADS will be payable if you buy a new home before selling your current home but may be repaid if you sell your current home within 36 months.

The rules are not simple and you may face an unexpected charge to ADS and may wish to obtain specific advice on this.

Tax when you sell your home

Usually when you sell your family home or main residence you do not pay Capital Gains Tax (CGT). However, if any of the following apply you may need to pay CGT on all or part of any gain if :

— You have more than one home e.g. a city flat and a country house

— You have not always lived in the property

— You have let your property at any time

— You have used part of the property exclusively for business purpose

— You bought additional land to extend your garden or there are large gardens in relation to the house

Spouses or civil partners can only have one main residence between them at any time. What is your main residence is a question of fact unless you declare to HMRC within two years of acquiring another property, which one is to be regarded as your main residence.

From 6 April 2020, if your home has not always been your main residence and CGT is due on the disposal, a return must be filed with HMRC. The return must be submitted with HMRC and the tax paid within 60 days of the date of disposal.

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Tax on your rental property

When you make a decision to acquire a buy to let property it is important to consider the tax implications.

Tax when you sell a rental property or a property that is not your main home

When you sell a buy to let property or a property that is not your home you will pay CGT on any increase in value. Expenditure such as legal fees on purchase and sale, LBTT and the cost of improvements may be deducted although the amount required to repay a mortgage cannot be deducted.

The rate of tax on the gain may be as high as 24% although each individual has an annual exemption. This is the amount of gains that can be realised in a tax year without incurring liability to tax.

Prior to selling a property it is advisable to calculate what your gain may be and if any planning can be undertaken to reduce the CGT payable.

From 6 April 2020, where CGT is due on the disposal a return must be filed with HMRC. The return must be submitted with HMRC and the tax paid within 60 days of the date of disposal.

Non UK Residents

If you are not UK resident and sell land or property a capital gains tax return must be filed with HMRC even if you:

- have no tax to pay on the disposal
- have made a loss on the disposal
- are registered for Self Assessment

The return must be submitted with HMRC and any tax paid within 60 days of the date of disposal.