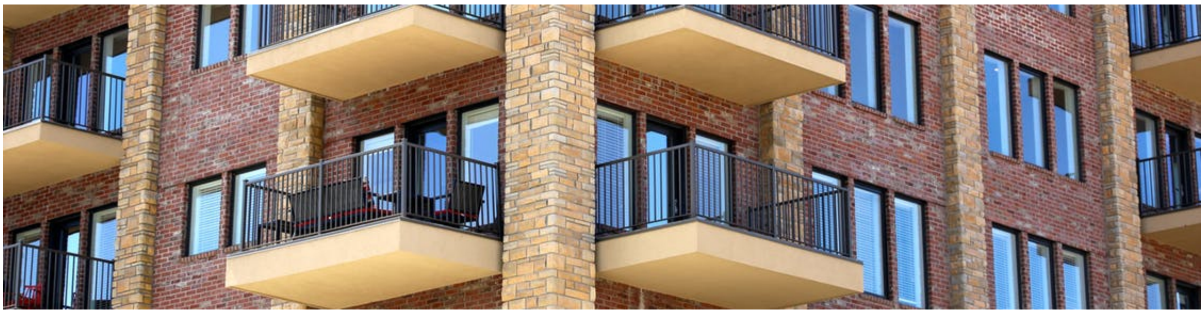

FACTSHEET

Allowable expenses for Property Businesses

What expenses may be allowed for tax?

- When you initially buy your investment property, don't forget to make a note of the legal fees and any stamp duty that you pay. Whilst these are not an allowable expense against your rental income, you will be able to get tax relief on them as part of the calculation of any capital gain when you sell or transfer the property in the future. The incidental costs of arranging finance may be an allowable expense against your rents received.

- If you have borrowed money to purchase the property, you will be making regular payments to the lender. These payments may be interest only or both interest and capital. Only the interest element of payments may be deducted from your rental receipts for income tax purposes. With effect from April 2017, you will only be able to claim tax relief on interest costs at the basic rate of tax of 20%, regardless of which income tax bracket you are in. The shift from the current system will be phased in over 4 years.

- If you incur costs in decorating or repairing the property before a tenant moves in, these costs are likely to be viewed as necessary to bring the property into a fit state to be let out. Those costs are not allowed as an expense against your rental income, but are instead, capital costs that should be recorded to set against the proceeds from selling the property.

- Once you have a tenant, these repair and maintenance costs are an allowable expense in your rental accounts.

- The costs of insuring the property, any ground rent that you pay, council tax and utilities are also allowable expenses in your rental accounts. If your tenant reimburses any of these expenses to you, then you will only be able to claim relief for the net cost to you after setting off their contribution.

- Costs incurred in finding tenants and collecting rent are allowed. You may have a property management agent who deals with all of these aspects for you, or you may manage them yourself. The costs that you will typically incur include advertising, drafting of tenancy agreements, letting agent fees, property management agency fees and debt collection fees if your tenants do not pay their rent on time.

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- You may also incur other general costs that are associated with running the business. These could include accountancy fees, telephone, postage and stationery costs, subscriptions to appropriate professional organisations, bank charges and travelling costs. .

- If your property is let furnished, up until April 2016 you will be able to claim a wear and tear allowance against your rental income. This allowance is calculated as 10 % of the rent received less certain expenses. The allowance is claimed instead of claiming the cost of replacing furniture and fittings as an expense. With effect from 6 April 2016 however, this allowance is being withdrawn and you will only be able to deduct costs that you have actually incurred.

- Expenses incurred in the seven years before you start your letting business can also be claimed against rent received, provided that the expense falls into one of the sections above that is allowed as an expense in your rental accounts.

For more information

If you own or are considering purchasing property in the UK, it is vital that you are aware of the tax laws and how they apply to you.
Contact us today to discuss your individual circumstances:

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