



Non Resident Landlords & UK Rental Income.

INCOME

Rent received from letting of U.K. property whilst non resident is taxable. Generally, regardless of the type of the lease, all such income is pooled. Thus, losses on a particular property may be offset against the profits on another.

Furnished holiday lettings have some tax advantages over other lettings however it is important to identify if you meet the qualifying criteria for this status to apply.

BASIS OF REPORTING

Assessable rental income is calculated using the normal accounting principles for a trade or business. As a result, incomings are declared as earned income in the tax year they are received otherwise known as the arising basis. Similarly allowable expenditure is calculated with reference to work done or goods or services supplied no matter when a bill is actually issued or paid.

In certain circumstances H M Revenue and Customs may accept the use of the cash basis if the rents from all properties do not exceed £15,000 per tax year. This means that the rental profits are calculated with reference to cash actually received and paid in a given tax year.

Special rules apply to Premium Leases. Where this occurs it is important to ensure that the income is correctly declared and the available allowances claimed.

DEDUCTIBLE EXPENSES

Many people appoint an agent to manage the property. Their charges are fully deductible in arriving at the taxable profit as are accountancy costs in connection with the preparation of annual accounts.

You may also deduct expenses in respect of water rates, repairs, maintenance, insurance etc. Furthermore, certain expenses incurred prior to your letting the property will be allowable for tax purposes.

Since April 2013, landlords of unfurnished properties have only been able to claim for the costs of repairs and not the actual costs of replacing furniture, white goods (unless appliances are integrated), curtains, carpets and other similar items.

Landlords of fully furnished properties have been able to claim the wear and tear allowance to cover the costs of replacing furniture, white goods, carpets and utensils etc. This allowance is simply calculated at 10% of the gross rents received less any expenses which are born by the tenant. This has given regardless of whether any items have been replaced or not.

From April 2016, the wear and tear allowance for fully furnished properties was abolished and a new relief introduced allowing the landlord to claim for the actual cost of replacing furnishings i.e. furniture, furnishings, appliances and kitchenware provided for the tenant's use. This does not apply to furnished holiday let properties.

Previously there has been no restriction on the amount of borrowing on which tax relief will be eligible where the borrowing has applied to the cost of purchasing or improving the property. Relief is give at an individual's top rate of tax. Furthermore, it is possible to remortgage a property. In these circumstances, the maximum amount of qualifying tax relief is limited to the original purchase price of the property or value on that date the letting commences.

From April 2017, HMRC reduced the amount of tax relief that landlords can claim on residential property mortgage interest paid. This means that the landlord will no longer be able to deduct all of their finance costs from their property income. They will therefore need to restrict the interest they claim. To allow landlords time to adapt to the new rules, they are being given four tax years.

Broadly speaking 2017/18 will attract 75% relief with the remaining 25 % getting basic rate relief. 2018/19 will allow 50% relief and 50% at the basic rate. 2019/20 - 25% relief with 75% at the basic rate. 2020/21 just relief of 20% relief is allowed.

This restriction of relief is not currently applicable to furnished holiday let properties.

RENT A ROOM

The rent a room allowance with effect from 6 April 2019 is £7500. This is where a room at home which is the landlords only or main residence applies is let out and represents the amount of tax free income that can be received.

RECORD KEEPING

There is a requirement under Self Assessment to keep sufficient records to enable you to accurately compute your letting profits each year. This will include the letting statements produced by the letting agents, receipts for bills paid, and indeed any other expenses incurred in the letting of your property.

Normally these should be kept for five years after 31st January following the end of the year of assessment and failure to produce these in the event of an HMRC enquiry into your affairs may lead to harsh financial penalties being incurred.

SELF ASSESSMENT

Even if you do not receive a tax return to complete, the onus is on the landlord to notify HMRC if they have a tax liability in respect of their rental income. Failure to meet your obligations will lead to stringent penalties and interest charges.

Since April 2015, most non resident landlords have had an obligation to file.

These obligations will mean the annual submission of self-assessment tax returns and timely payment of tax. Tax will usually be due on 31st January 31st July and will incorporate the balance and tax due for the previous tax year and payments on account against the following years liability.

CAPITAL GAINS TAX

Since April 2015, the sale of UK residential property belonging to a non resident individual is a taxable event.

This has become a complex area and involves notifying HMRC of the property sale within 30 days of the conveyancing otherwise HMRC will charge penalties. Beyond this, the individual needs to choose which of 3 modes (rebasing, straight line or retrospective basis) of calculation produces the least tax to pay and elect for this. Where the individual completes a self assessment tax return the sale can be reported and any tax paid within the normal dates as mentioned above.

Where the individual does not complete a return then a special non resident capital gains tax return must be completed with the tax being paid at the appropriate rate to HMRC within 30 days of the exchange of contracts.

Where this does not happen, HMRC will charge interest and penalties.