

# Using the property rental toolkit to avoid common errors in returns

## Introduction

HMRC's property rental toolkit highlights errors commonly found in tax returns in relation to property income. The toolkit can be used to help avoid those errors, some of which are discussed briefly below.



## Computation

For unincorporated property businesses, the default basis is the cash basis where the qualifying conditions are met and the landlord does not elect to use the accruals basis. Where the business has moved into or out of the cash basis, transitional adjustments may be needed.

In some circumstances, a trade of providing services may be carried on in addition to the let of the property; and in some cases, the letting may amount to a trade.

It is important the correct computational rules are used.

## Record keeping

Poorly-kept records may mean that things are overlooked – income may not be taken into account and allowable expenses not claimed. Property disposals may also be missed.

## Property income receipts

All income which arises from an interest in land should be included as receipts of the property rental business. Receipts can include payments in kind (maybe work done on the property in lieu of rent). It should be noted that casual or one-off letting income is still treated as income from a property rental business.

Profits and losses from overseas lets, from furnished lettings and from properties let rent-free or below market rent should be dealt with separately. For other UK lets owned by the same person or persons, income and expenses are combined to work out the overall profit or loss for the property rental business.

## Deductions and expenses

Expenses incurred wholly and exclusively for the purposes of the property rental business can be deducted in the computation of profits. Problems may arise where an expense has both a business element and a private element (for example, a car or phone used both privately and for the business). A deduction can be claimed only for the business part where this can be identified and meets the wholly and exclusively test.

The way in which relief for finance costs is being given is shifting from relief by deduction to relief as a basic rate tax reduction. Ensure that the split is correct for the tax year in question and relief given in the right way.

## Allowances and reliefs

There are various reliefs that may be available to those receiving rental income.

Rent-a-room relief is available where a room is let furnished in the taxpayer's own home, enabling receipts of £7,500 a year to be enjoyed free of tax.

The property income allowance of £1,000 means that rental income below this level does not need to be returned to HMRC. Where income exceeds this level, the

allowance can be deducted instead of actual expenses where this is beneficial.

Capital allowances can be claimed in certain circumstances. They are available on certain items that belong to the landlord and which are used in the business, for example, tools, ladders, vehicles, etc. However, they are not available for domestic items in a residential property for which a replacement relief is available instead. Capital allowances are similarly not available for plant and machinery in a residential property unless it is a furnished holiday let.

### **Losses**

Property rental losses must be treated correctly. They can only be carried forward and set against future property profits of the same property rental business.

### **Checklist**

The checklist within the toolkit can be used to ensure that everything has been taken into account and that nothing has been overlooked.

### **Information to readers**

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### **Recommendation**

It is important to talk to your advisor during the year to ensure you are capturing all the income and expenses as appropriate. HMRC through enquires or discovery find additional income or over claimed expenses can levy interest and penalties on the error. It can also tarnish the reputation of your business with HMRC opening you up to further scrutiny.

If you do have any questions or concerns, please contact:

**Ashley Clarkson FCA BSc (Hons)  
Director**

**AMEC Consultancy Limited**

**M: 07775 940992**

**E: [ashley@amec-consultancy.co.uk](mailto:ashley@amec-consultancy.co.uk)**

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