

# Claiming a deduction for pre-letting expenses

## Introduction

For tax purposes, a property rental business begins when the first property is let. However, it is likely that the landlord will have incurred some expenses prior to that date in getting the property ready to let and in finding a tenant and agreeing the let.



Once the letting has commenced, expenses incurred in relation to that let will be deductible in computing the taxable rental profits, as long as the conditions for deductibility are met (i.e. the expenses are incurred wholly and exclusively for the purposes of the rental business and, subject to the cash basis capital expenditure rules, are revenue in nature). It is therefore necessary to distinguish between expenses incurred as part of the letting business and preparatory expenses incurred before the property rental business began.

While no relief is available for preparatory expenses at the time that they are incurred, relief may be available under the special rules for pre-letting expenses once the business has commenced.

## Relief for pre-letting expenses

For relief to be available in respect of expenses incurred before the start of the property rental business, the expenditure must meet all of the following conditions:

- the expenditure is incurred within a period of seven years before the date on which the rental business started
- the expenditure is not otherwise allowable as a deduction for tax purposes
- the expenditure would have been allowed as a deduction had it been incurred after the rental business had started

Consequently, to be allowed under the pre-letting expenditure rules, the expenditure must be incurred wholly and exclusively for the purposes of the business and (otherwise than in accordance with the cash basis rules permitting a deduction for capital expenditure) must be revenue in nature.

The type of expenditure which might qualify for relief under the pre-letting expenses rules would include the costs of advertising for a tenant, cleaning the property, tidying up the garden, and suchlike.

Where expenditure qualifies for deduction under the pre-letting expenses rules, the expenditure is treated as if it were incurred on the day on which the property rental business began. In this way, it is deducted from the rental income of the first accounting period of the property rental business.

## Example

Teresa buys a house to let out. The property costs £250,000, and the associated costs of the purchase are £4,000. The purchase completes on 28 February 2019.

Teresa arranges for some work to be undertaken on the property prior to letting it out. This comprises painting the

property (£2,000) and some minor repairs (£400). She also buys carpets and curtains (£3,000) and arranges for the property to be cleaned (£200) and the garden to be tidied up (£150).



She incurs costs of £400 on advertising for a tenant.

A tenant is found, and the property is let from 1 May 2019.

The property rental business starts on 1 May 2019. Relief is available under the pre-letting rules for the following expenses:

- repairs and maintenance (decorating and minor repairs): £2,400;
- cleaning: £200;
- gardening: £150; and
- advertising: £400.

#### Information to readers

This material is published for the information of clients. It provides only an overview of the regulations in force at the date of publication, and no action should be taken without consulting the detailed legislation or seeking professional advice. Therefore no responsibility for the loss occasioned by any person acting or refraining from action as a result of the material can be accepted by the authors or the firm.

These costs are treated as if they were incurred on 1 May 2019 and are deducted from the rental income if the first period of letting.

The cost of property and associated expenses are not allowable (relief will be given on the eventual sale under the capital gains tax rules). Likewise, no relief is available for the initial purchase of the carpets and curtains, although relief will be available if at some future point they are replaced in accordance with the relief for the replacement of domestic items.

#### Recommendation

It is important to keep a complete record of all expenses (including copies of invoices) in bring the property to the position of being let. It is an important relief when starting to let your property.

**Ashley Clarkson FCA BSc(Hons)**

**Director**

**AMEC Consultancy Limited**

**M: 07775 940992**

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

For more information about AMEC Consultancy and its services, please visit:

**[www.amec-consultancy.co.uk](http://www.amec-consultancy.co.uk)**