Chartered Accountants and Business Advisors

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Property income receipts – what should be included?

Introduction

When calculating the profit or loss for a property rental business, it is important that nothing is overlooked. The receipts which need to be taken into account may include more than simply the rent received from letting out the property.

Rent and other receipts

Income from a property rental business includes all gross rents received before any deductions, for example, for property management fees or for letting agents' fees. Other receipts, such as ground rents, should be taken into account.

Deposits

The treatment of deposits can be complex. A deposit may be taken to cover the cost of any damage incurred by the tenant. Where a property is let on an assured shorthold tenancy, the tenants' deposit must be placed in a tenancy deposit scheme.

Deposits not returned at the end of the tenancy or amounts claimed against bonds should normally be included as income. However, any balance of a deposit that is not used to cover services or repairs and is returned to the tenant should be excluded from income.

Jointly-owned property

Where a property is owned by two or more people, it is important that the profit or loss is allocated between the joint owners correctly. Where the joint owners are married or in a civil partnership, profits and losses will be allocated equally, even if the property is owned in unequal shares, unless a form 17 election has been made for profits and losses to be allocated in accordance with actual ownerships shares where these are unequal.

Where the joint owners are not spouses or civil partners, profits and losses are normally divided in accordance with actual ownership shares, unless a different split has been agreed.

Overseas rental properties

Where a person has both UK and overseas rental properties, it is important that they are dealt with separately. The person will have two property rental business – one for UK properties and one for overseas properties. Losses arising on an overseas let cannot be offset against profits of a UK let and vice versa. Proper records should be kept so that the income and expenses can be allocated to the correct property rental business.

Furnished holiday lettings

Different tax rules apply to the commercial letting of furnished holiday lettings and where a let qualifies as a furnished holiday let it must be kept separate from UK lets that are not furnished holiday lettings. Likewise, furnished lets in the EEA must be dealt with separately from UK furnished holiday lets.

Getting it right

Good record keeping is essential to ensure that not only that all sources of income are taken into account, but also that any income received is allocated to the correct property rental business.

Recommendation

It is important to talk to your property and tax advisor to see which rules would apply to you and your properties interests.

If you have further questions or concerns, please contact:

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