Rental expenses – When can you claim relief

Landlords incur various expenses when letting out a property. These may be directly related to the property itself, such as repairs and maintenance, or in relation to finding tenants and managing the let. To ensure that tax is not paid unnecessarily, it is important that the landlord claims relief for all allowable expenses.

General rule

The general rule is that a deduction is allowed for revenue expenses that are incurred wholly and exclusively for the purposes of the property rental business. Relief for capital expenditure depends on whether the cash basis or the accruals basis is used. Under the default cash basis, capital expenditure can be deducted unless a deduction is specifically prohibited, as is the case for land, property and cars.

Common expenses

Although the exact expenses will vary from let to let, the following is a list of common expenses which a landlord may incur and which may be deducted in computing profits as long as the wholly and exclusively rule is met:

- general maintenance and repairs to the property (but not improvements);
- water rates;
- council tax;
- gas and electricity;
- insurance (such as landlord's insurance for buildings and landlord's contents);
- cleaning costs;
- gardening costs;
- letting agents' fees;
- property management fees;
- legal fees for lets of less than a year or for renewing a lease of less than 50 years'
- accountant's fees;
- office costs, such as stationery, paper, printing and postage;
- advertising costs;
- phone calls; and
- rent where the property is sub-let.

Relief is not available if the tenant incurs the expense rather than the landlord (as may be the case with council tax and utilities, for example).

Vehicle costs

Where the landlord uses his or her own car for the purposes of the property rental business, a deduction can be claimed on a mileage basis using the simplified expenses system. The rate for cars and goods vehicles is 45p per mile for the first 10,000 business miles in the tax year and 25p per mile thereafter.

Interest and other finance costs

Relief can be claimed for interest costs where the property was funded with borrowings, but not for any capital repayments on the mortgage. Interest costs are allowable on borrowings up to the cost of the property when first let. The mortgage does not need to be secured on the let property.

For 2020/21 relief for interest and associated finance costs is given fully as a tax reduction at the basic rate. For 2019/20, 25% of the costs were deductible in computing profits, with relief for the remaining 75% being given as a tax reduction at the basic rate.

Keep records

To ensure that deductions for expenses are not overlooked, the landlord should keep a record of all expenses incurred in relation to the let, together with receipts and invoices. Failing to claim allowable deductions means that tax will be paid unnecessarily.

What can be done with property rental losses?

During the COVID-19 pandemic, landlords may find that tenants are unable to pay their rent, and, when a let comes to an end, that they are unable to re-let the property, or have to accept lower rent. As a result, they may make a loss on their property rental business.

Calculating the loss

Any loss arising from the property rental business is calculated in the same way as profits. Where the cash basis is used, as will generally be the case being the default basis of preparation for most smaller landlords, the loss for the period will be the cash received by the property rental business less the cash paid out.

Automatic set off against properties in the same property rental business

As profits and losses are calculated for the property rental business as a whole, if there is more than one property in the rental business, a loss on one property is automatically set against any profit from other rental properties in the same business.

Example

A landlord has three properties that he lets out. In 2019/20 he makes a loss of £3,000 on property A, a profit of £2,000 on property B and profits of £1,500 on property C.

The loss on property A is set against the profits on property B and C when calculating the overall result for the property business as a whole. Overall, the property business has a profits of £500 (-£3,000 + £2,000 + £1,500).

Utilising a loss

The general rule is that a loss on a property rental business can be carried forward and set against profits from the property rental business in the following year. If there is a loss in the next year or profits are not sufficient to fully utilise the loss, any unused part of the loss can

be carried forward to the next year and so on until it can be used. There is no limit on the number of years for which the loss can be carried forward.

The same property business

Losses can only be set against the future profits of the same property business. If the landlord has more than one property business, for example a UK property business and an overseas property business, the losses from one cannot be set against the profits of another. Losses from a furnished holiday letting business can only be carried forward and set against profits of that business.

Example

A landlord has a property rental business. In 2017/18 he makes a loss of £5,000, in 2018/19 he makes a profit of £4,000 and in 2019/20 he makes a profit of £3,000.

The loss of £5,000 is carried forward and £4,000 of it is set against the profits of 2018/19, reducing the profits for that year to nil. The balance of the loss of £1,000 which cannot be used is carried forward and set against of 2019/20, reducing the taxable profit for that year to £2,000.

Losses lost if property rental business ceases

If the property rental business ceases before the losses have been used up, the losses are lost. This remains the case if the landlord starts a new property business after a gap as the new business will be a different property rental business.