

Property letting 2025

Commercial and residential

Tax issues guide

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Thinking of letting a property?

For some people, letting a property is a chance to make money from a second home or a property gained through inheritance.

Others actively seek out properties with the aim of letting them out, in what is called 'buy-to-let'.

If you have any questions about property letting, just get in touch with us and we'll be pleased to help you.



Let's get started

Property letting is the process of renting out to tenants, a residential or commercial property you own in order to generate rental income.

Help with tax

Letting property can involve some complicated tax issues, and it's very important to get all the details right.

We've created these guidelines to help you get up to speed quickly and make sure you fulfil your obligations to HM Revenue & Customs (HMRC), which begin as soon as you start letting your property.

Types of letting

Prior to April 2025 there were two main categories of property letting: furnished holiday letting and general letting.

The beneficial tax treatment which previously applied to furnished holiday lettings has now been abolished.

This brochure will concentrate on general lettings but if you are interested

in the historic treatment of furnished holiday lettings or how the abolition of the tax regime will affect you, please read our separate brochure.

General letting

General letting includes residential property, such as houses or flats, and commercial property, such as shops and industrial units.

There's an opportunity for tax relief when letting rooms in your house, covered by the 'rent-a-room' relief provisions. The relief is automatic if you earn less than £7,500 (this is halved if you share the income with your partner or someone else). If you earn more than this, you must complete a tax return.

If you believe that the 'rent-a-room' provisions may apply, please speak to us, as it may impact more than just income tax regulations.



At Larking Gowen, we see ourselves as more than purely chartered accountants.

"We'll look after your tax and finance issues, with a friendly one-to-one service you can count on."

Recording income and expenses

As soon as you start letting your property, you need to start recording details of all your income and expenses. Income includes any money you receive from tenants.

Record deposits separately from rent. Their taxability will depend on whether or not you retain some or all of the deposits to cover expenditure during or at the end of a tenancy.

Deposits for general lettings should be paid into a protected government-backed tenancy deposit protection scheme. This ensures that the deposit is held safely and can be easily returned to the tenant at the end of their tenancy, provided the tenancy agreement has not been broken.

You also need to record all expenses and keep hold of all your receipts and invoices for at least five years and ten months after the end of the relevant tax year.

Many expenses can be offset against your tax liability later on, but you must have an accurate record of them. You may also be able to offset some of the expenses from before you started letting the property.

It's important that you update your records regularly, so you have a clear picture of the money coming in and going out. Also, the more accurate and up-to-date your records, the less work will be needed to fill in your annual tax return.

Choose a way to record your income and expenses that's accurate and easy for you to use. We can suggest some suitable methods. With the introduction of Making Tax Digital from April 2026, an electronic method would be recommended to future-proof your accounting (see page 6 for further details).

HMRC see some expenditure as 'capital' rather than revenue. Capital expenditure is more long term in nature, such as building alterations. On the other hand, revenue items are more short term, such as repairs and maintenance. We can help you make sure all your expenditure is properly classified. It's important to keep a log of annual capital expenditure as, when you dispose of the property, costs incurred can be offset against the potential increase in value.

The cash basis is the default basis for calculating the profit or loss for the year. A landlord can elect to be assessed on an accruals basis.

What expenses are allowed?

Tax deductible expenses may include:

- Rates.
- Insurance.
- Agents' fees.
- Advertising.
- Travelling expenses wholly and exclusively for the rental trade.
- Mortgage interest relief. Interest on a mortgage or other loan used to purchase a residential property (but not the repayments) can be relieved, but may be restricted depending on whether you are a basic rate or higher rate taxpayer. There's no restriction on a commercial. Unused relief for non-taxpayers, or if you made a loss, can be carried forward.
- Replacement of furnishings etc (the 10% 'wear and tear allowance' is no longer available). The initial cost of furnishing a property is not a tax allowable deduction.



VAT

There may be opportunities to save tax through VAT using the 'Option to Tax' on commercial and non-residential property. If you invest significantly in renovating a property, you should seek advice as the Capital Goods Scheme provisions may apply.

Becoming a limited company

Most property lettings are run by individuals, however, you can also operate your lettings business through a limited company, and, in some circumstances, it may be worth doing this for tax purposes. We can advise you on whether it's worth incorporating your property lettings or, if investing for the first time, whether a limited company would be an option.

Your tax return

Each tax year, for an individual or non-corporate entity, runs from 6 April to the following 5 April. After the end of each tax year, you must complete and file a tax return showing all your letting income and expenses for that tax year. For paper returns, the filing deadline is the 31 October following the end of the tax year, or if you file your tax return online, you have until the following 31 January.



Joint ownership

If you're married or in a civil partnership, and the two of you jointly own a property, HMRC's standard rule is that the income split is assumed to be 50/50, regardless of the ownership proportions. However, you can choose for the actual ownership split to be used for tax purposes. We can advise you on this, as an election is required which needs to be submitted to HMRC within 60 days of the date it is to come into effect.

If you own the property jointly with someone else who's not your spouse or civil partner, the income from it will be split in the ownership proportions for tax purposes. For example, if you own 75% of the property and your co-owner owns 25%, you'll pay tax on 75% of the profits and your co-owner will pay tax on the other 25%. Each of the owners of a property must submit a tax return.

It's also possible to divide profits and/or losses on a flexible basis, if agreed between the owners, and it can differ from the actual ownership ratios. The share for tax purposes must be the same as the share agreed.

Paying tax

Your letting profits will be added to your other income and taxed at either 20%, 40% or 45%, depending on the level of your total income.

Any tax you have to pay is due on the next 31 January following the end of the tax year.

After your first year's letting, HMRC may ask you to make 'payments on account' by 31 January and 31 July each year. With payments on account, you pay some of your tax bill in advance.

The amount is never more than 50% of your last liability. You should, ideally, set aside funds to meet these payments on account.

Capital allowances

Where a landlord lets non-residential property, it may be possible to claim capital allowances on fixtures, fittings and plant and machinery, including any items 'embedded' within the property.

When you buy a new property, you need to consider the position with regard to capital allowances very carefully.

It's important not to miss out on potentially valuable opportunities to claim deductions for both current and past expenditure. We can help you identify any capital allowances that you could claim.

If you're going to buy a non-residential property, you should seek advice before entering into the purchase contract.

Overseas property and non-resident landlords

The rules apply equally to properties based in the UK and overseas, providing the individual is a UK resident. For an overseas letting there may be taxes to pay in the other country and double tax relief may be available.

Non-resident landlords of UK property lettings will see 20% tax deducted at source from the rents received by their letting agent (or the tenant where there is no agent), unless they register for the non-resident landlord scheme with HMRC.

Annual Tax on Enveloped Dwellings (ATED)

ATED is a tax payable where a high value residential property situated in the UK is held by a 'non-natural person' (broadly speaking, a company).

Where the value of the property is in excess of £500,000, registration is required and a tax charge will be levied upon the company each year. There are various exemptions available, which can reduce the tax charge to nil, and we're able to advise on these.

Off-setting losses

If you make a loss on your property (i.e. where your expenses and capital allowances, if relevant, were more than your income), you can reduce your tax bill by off-setting the loss against the profit from other rental properties you have in the same tax year.

You can also carry the loss forward to offset against rental profits you make in the future but you cannot offset your property rental losses against your earnings, or income from other sources.

Time limits

If you fail to comply with the following deadlines, then HMRC penalties and interest may be levied:

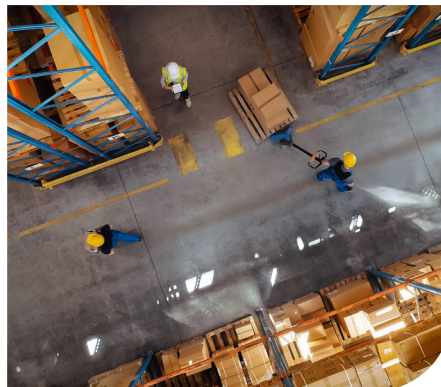
- Submit a Stamp Duty Land Tax (SDLT) return: 14 days.
- Submit a Capital Gains Tax (CGT) return: within 60 days of completion on a sale, where capital gains tax is due.
- Individuals must register for self-assessment: six months from the end of the relevant tax year.
- Individuals must submit a self-assessment tax return: by 31 January after end of tax year (if filing online) or by 31 October (if filing on paper).
- Companies have different reporting requirements dependant on their year end – please seek advice.

Buying your property

When purchasing a residential property as a second home or buy-to-let, additional Stamp Duty Land Tax (SDLT) of 5% is usually payable on top of the existing rates. This surcharge affects the purchase of residential property in England and Northern Ireland. (There are different rules for properties in Scotland and Wales.)

For non-residents buying property in England and Northern Ireland, there is an additional 2% surcharge.

SDLT can create problems when buying via a limited company; some quite penal charges can fall back into play if you use the property personally so, if this is part of your plan, please seek advice.



Selling your property

When you sell a property, the owner will have to pay capital gains tax on any increase in value since acquisition.

From October 2024, gains made by an individual on all types of property are taxed at 18%, where a gain falls into the basic rate tax band, or 24% for any element of the gain that falls into the higher rate of tax.

There may be some additional relief if, at some point, the property had been your only or main residence.

These rules are complex and were changed in April 2020. The previously beneficial lettings relief may no longer be available, unless you 'rented a room' in your home whilst in occupation. The final period exemption for main residence relief was also reduced to nine months.

Tax rates for companies vary depending on profit levels and the number of entities controlled. In basic terms, the rate is 19% for profits below £50,000 but we recommend you take advice to confirm your circumstances.



Making Tax Digital for Income Tax (MTDfIT)

HMRC are making major changes to the way in which individuals submit information to them. Business owners, including property landlords, will have to keep their records digitally and file quarterly reports with HMRC.

This will involve using software or apps to record income and expenditure, which can submit information to HMRC at least once every three months. It will not be possible to use HMRC's own software to make these submissions.

If your turnover is in excess of the £50,000, these changes will apply from April 2026.

For those with turnover above £30,000, MTDfIT will apply from April 2027.

We work with bespoke software providers, so can help you with these changes and recommend software that's easy to understand and use.

Meet the team

Commercial and residential letting

Larking Gowen's specialist team is highly experienced in the commercial and residential letting sector.

We provide accounting services for hundreds of businesses and individuals throughout Norfolk, Suffolk and Essex.

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Tax is our business

Whatever your financial needs, our team of accountants and business advisors is committed to securing your future, and helping you reach your goals.

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