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Tax on rent from residential property lettings

Letting residential property is treated as a single business, even if you let out more than one property. If you let out several properties, you can offset losses from one against profits from another. You pay tax on any profit as part of your overall income.

What counts as residential lettings?

Properties that you let out for people to live in as their home count as 'residential lettings'. For tax purposes these are treated differently from furnished UK holiday lettings.
If you rent out part of your own home this can also count as residential lettings, but you can take advantage of the 'Rent a Room' scheme instead. This lets you get tax-free income of up to £4,250 from letting rooms in your home.

Working out your taxable profits from residential lettings

Step one

You work out your 'net profit' as follows:

- add up all your rental income
- add up all your 'allowable expenses'
- take your allowable expenses away from your income

If you have more than one residential letting, you group all the income and all the expense figures together.

Step two

To arrive at your taxable profit deduct any allowances you're entitled to from you net profit:
If you let furnished property, you can deduct either of:

- a 'wear and tear' allowance - based on a percentage of your rent
- a 'renewals' allowance - the cost of replacing old items with a new equivalent (but you deduct any money you get from selling the old item)

You may also be able to deduct certain 'capital' allowances for the cost of equipment relating more generally to your lettings business - check the detail in our related article.

Reporting your profits to your Tax Office

If your profit is less than £2,500

If you're employed, or getting a pension through PAYE, and your taxable income from property is less than £2,500, your Pay As You Earn (PAYE) tax code can be adjusted to collect the tax on your property income each year. Just ask your Tax Office to send you form P810 to report your income each year. Contact details for your Tax Office are on your payslips or you can find them online.

If your profit is £2,500 or more or you're not on PAYE

In this case you'll need to fill in a Self Assessment tax return (you may do this already, if not contact your Tax Office).
If your total income from UK property is £15,000 or more in a tax year you must declare it on the land and property pages of the full Self Assessment tax return. If it's below £15,000 you may be able to complete a shorter four-page return.

When you fill in your tax return, put in the rents and expenses for the year they relate to - it doesn't matter when you actually receive and pay them.

Both types of return have help notes (you can download those for the full return below).

If you complete the full return, it's quickest and simplest to file online. The figures you put in add up automatically. The filing deadlines are also more generous if you don't want to work out your tax bill yourself.

How much tax will you pay?

Your taxable profit from property letting is added to your overall income. If this is more than your tax allowances you'll pay tax on it at your normal Income Tax rates.

If you let property jointly

If you let property with someone else, when you fill in your tax returns, or forms P810, you should each show your share of:

- the income and expenses
- the profit (or loss)

The help notes for your tax return explain how to do this.

Paperwork that you need to keep

You'll have to keep records of your property letting business for six years after the tax year they're for. You need them to back up the figures you put on your tax return. Your records should include details of:

- all the rent you receive and the dates when you let out the property
- any income from services provided to tenants
- your business expenses
- rent books, receipts, invoices and bank statements