

March 2022

## Call for Evidence – Property Income Review

### Introduction

Income from residential property owned by individual landlords is taxed under one of two different regimes.<sup>1</sup>

- The general position is that income tax will be due on the profits from renting out the property, after certain allowable deductions. However, residential property mortgage interest relief is restricted to the basic rate of income tax, and there are no specific capital gains reliefs.
- The Furnished Holiday Lettings (FHLs) regime applies to residential property let on short term lets within certain parameters<sup>2</sup> The income then attracts some additional reliefs as, for example, mortgage interest is fully deductible and capital allowances are available. In addition, Business Asset Disposal Relief is available on gains made when properties are sold.

Separately, the Rent a Room Scheme<sup>3</sup> provides a tax exemption of up to £7,500 for individuals renting out furnished accommodation within their home.

For income of up to £150,000 the taxable amount can be calculated based on either cash received and paid in the tax year (the 'cash basis') or the income and expenses relating to the tax year (the 'accruals basis' or traditional accounting). If the income is over £150,000 the traditional method of accounting must be used.

In calculating the amount of taxable income a property allowance of £1,000 can be claimed instead of expenses in most cases.

Companies are subject to corporation tax on their profits from renting property and are not subject to specific restrictions on the mortgage interest they can deduct.

As set out in the scoping document,<sup>4</sup> the review will consider the current regimes for the taxation of residential property held by individuals, partnerships and micro companies, and develop recommendations for simplification and ways of addressing distortions.

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<sup>1</sup> Unless the business amounts to a trade, such as bed and breakfast accommodation, in which case the income is taxed as trading profits.

<sup>2</sup> The property must be available for commercial letting of short term furnished holiday accommodation for at least 210 days in each tax year and actually let as such for at least 105 days.

<sup>3</sup> <https://www.gov.uk/rent-room-in-your-home/the-rent-a-room-scheme>. If the income exceeds £7,500 then either £7,500 or the actual expenses incurred can be deducted.

<sup>4</sup> Review of Property Income - Scoping document - GOV.UK ([www.gov.uk](http://www.gov.uk))

The primary focus of the review will be on income received from property.

## How to Respond

In your response to this call for evidence it would be helpful if you could outline the nature of your experience of the taxation of property income, and your role or roles in relation to it, for example:

- if you are an individual landlord, the type of property rentals undertaken and whether it is solely or jointly owned, or owned through a partnership or incorporated
- if you are a professional advisor, the type of clients you usually represent (for example, large businesses, small businesses, individuals)
- if you are responding on behalf of a representative body, please describe the group and its members

A list of the professional advisors or representative bodies responding to this call for evidence will be included as an annex in the final report. Individuals who respond will not be named. No comments will be attributed to respondents unless the OTS has received permission to do so.

Please submit your response to this call for evidence by 5 June 2022. Our email address is [ots@ots.gov.uk](mailto:ots@ots.gov.uk)

The OTS is interested in meeting with a wide range of stakeholders to discuss this review, please contact the OTS by 3 May 2022 if you would like to arrange to meet with us.

## Consultation Questions

The OTS welcomes responses to all or any of the questions below, as well as any general or specific comments on the areas covered by this review. There is no requirement to respond to all the questions; responses focusing on a particular area are equally welcome.

### Structural aspects

1. Do any particular issues arise as a result of differences in the tax treatment of property income and income from other investments, such as OEICs, or quoted shares?
2. Does the existence of different regimes for taxing property income and other income from investments lead to any distortions in behaviour?
3. Do any particular difficulties or benefits arise in relation to letting activities as a result of the different rules for the taxation of property income and trading income?
4. What prompts landlords to incorporate their property rental businesses and to what extent are such decisions motivated by tax or non-tax reasons?
5. What are the benefits and drawbacks of having a different regime for taxing property income and capital gains from Furnished Holiday Lettings?
6. To what extent do those owning property taxed under the Furnished Holiday Lettings regime use the property themselves?
7. Have you encountered any issues as a result of changes in a property's use or ownership, including varying the property ownership percentages?

### **Operational aspects**

8. What factors influence the choice between using the cash basis and accruals basis accounting, where rental income is less than £150,000 a year? How well understood are the implications of using each regime and of moving between these regimes?
9. Are there any difficulties with the operation of reliefs and exemptions available to those with property income?
10. Have you encountered any difficulties in understanding the rules about, or the tax processes involved in, becoming or being a landlord, including HMRC's information and registration requirements?
11. Do you have difficulties in finding out, getting guidance about or understanding how your property income should be taxed?

### **Administrative and compliance aspects**

12. Are you aware of any information being provided by third parties, for example letting agents or platforms to assist landlords in understanding their tax obligations?
13. Do you think that third parties, such as letting agents, platforms or holiday rental agency businesses, could assist in easing tax administrative burdens and in what ways?
14. To what extent could it be helpful to landlords if letting agents, platforms or holiday rental agents provided data to HMRC on their behalf?
15. What is your experience of completing a tax return to report property income? Are there any specific areas that cause difficulty?
16. Are there any other areas of tax administration that present particular challenges in relation to property income?
17. Making Tax Digital for Income Tax starts in April 2024 and mandates quarterly electronic updates for most individuals with turnover of over £10,000 for their property (and business) income. Are you aware of these reporting obligations and have you considered how you might comply with them?
18. Are there any other practical, technical and administrative issues in relation to property income that are not mentioned above?

### **Non-UK aspects**

19. Are there any particular issues of concern to non-resident landlords or their tenants (including in relation to the Non-Residents Landlord Scheme)?
20. Do any particular issues arise for UK residents receiving rental income from overseas?