Office of Tax Simplification
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Property Income Review Scoping Document

Introduction

The primary focus of the review will be to identify opportunities for simplification of the tax and administrative treatment of individuals, partnerships or micro companies deriving income from residential property.

Background

HMRC statistics suggest that there were around 2.9m individuals and 32,000 partnerships with property businesses filing tax returns in the 2018-19 tax year. These businesses may relate to commercial or residential properties (including Furnished Holiday Lettings) either in the UK or overseas.

Income from residential property owned by individuals is taxed under one of two different regimes.

The general position for individuals with property income is that income tax will be due on the profits from renting out the property at general income tax rates, after certain allowable deductions, including general maintenance and repair and letting, legal or accounting fees. However, residential property mortgage interest relief is restricted to the basic rate of income tax, and there are no specific capital gains reliefs.

The position is different within the Furnished Holiday Lettings (FHLs) regime which applies to residential property let on short term lets within certain parameters[1]. The regime was introduced in 1984 and means, in particular, that the income attracts some reliefs (such as for interest) in a similar way to trading income. In addition, some capital gains tax reliefs are available including Business Asset Disposal Relief, holdover relief for gifts and rollover relief for reinvestment into other trading assets.

Separately, the rent a room scheme[2] provides a tax exemption for individuals receiving up to £7,500 a year from renting out furnished accommodation within their home.

Companies are subject to corporation tax on their profits from renting property and have no restrictions on the amount of mortgage interest they can deduct. This review will consider the letting of property by micro companies, but will not examine property development or letting by larger companies or REITS.

[1] 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.
[2] https://www.gov.uk/rent-room-in-your-home/the-rent-a-room-scheme

Scope of the review

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.

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

In particular, the review will consider:

- the way that the taxation of property income fits into the overall scheme of income tax, and the rationale for the similarities and differences between the treatment of property and trading income, and income from other investments, and related rules in other taxes
- the differences between the rules for residential lettings generally and those applying to Furnished Holiday Lettings, the incorporation of property businesses, including SDLT aspects
- the factors that influence the choice between using the cash basis rather than accruals accounting, where rental income is less than £150,000 a year
- reliefs and exemptions, including CGT aspects, and whether the way they operate meets policy intent
- income received from property in the UK, including by individuals living abroad
- income from property overseas, including the complexities of the definition of qualifying EEA property in relation to Furnished Holiday Lettings
- any difficulties arising in understanding the rules, or in the tax processes involved in becoming or ceasing to be a landlord
- the impact of the use of intermediaries by those letting property, and any potential for them to assist in easing administrative burdens.

The review will have regard to issues that may arise in relation to:

- the various stages in a property's existence or as a result of changes in its use or ownership
- properties held for the purposes of a property business, or held as an investment, and related regulatory considerations
- rental properties, including buy-to-let properties, holiday accommodation, rent-a-room relief and the £1,000 de minimis allowance
- issues arising in connection with life events or family circumstances
- developments in the ways third party data could be used by HMRC to assist taxpayers
- practical, technical and administrative issues, including in relation to MTD reporting

In carrying out its review, the OTS will:

- be guided by contemporary research
- consider the likely implications of recommendations on the Exchequer, the tax gap and compliance
- take account of relevant international experience
- liaise with HMRC's Administrative Burdens Advisory Board
- consider the implications of devolution of tax powers and different legal systems within the UK
- be consistent with the principles for a good tax system, including fairness and efficiency be mindful of the effect of taxpayer trust in the operation of the tax system