

YOU AND YOUR FAMILY

Landlords: Tax on Rental Income

How rental profits are taxed, which costs you can claim, how mortgage interest is treated, and when owning through a company makes sense.

FOR: INDIVIDUAL LANDLORDS AND OWNER-MANAGERS WITH PROPERTY • SOME EXPERIENCE

Rent is taxable income

If you let out property, the profit is taxable. For an individual, it is added to your other income and taxed at your normal rates. For a company, it is taxed as part of the company's profit. Many landlords start small, perhaps with a property they used to live in, and are surprised by the tax return, the reporting and the effect on their other tax. Knowing the rules early keeps the surprises small.

How the profit is worked out

Rental profit is the rent received less the allowable costs of letting. Allowable costs generally include:

- Letting agent and management fees.
- Repairs and maintenance, to restore the property to its previous condition.
- Insurance, and ground rent and service charges.
- Utility bills and council tax, where you pay them.
- Accountancy and legal fees for the lettings, other than for buying.
- Costs of replacing domestic items, such as furniture and appliances, in a furnished letting.

What you cannot deduct against income includes the cost of buying the property, improvements that add to its value, and your own time.

The property allowance

There is a small annual allowance for property income. If your rent is below it, you may not need to report it. If you use the allowance, you cannot deduct actual costs. Whether to use the allowance or claim costs depends on which is better, and your accountant can compare them.

Mortgage interest

For individual landlords of residential property, mortgage interest is not deducted from rent. Instead, the tax is first worked out on the rent, less other costs, and then reduced by a tax credit based on a fixed proportion of the interest. This can mean a higher tax bill for people who pay tax at higher rates. The rules differ for companies, which are generally allowed to deduct interest.

Who this is for

- Anyone letting out a property
- Owners considering buying to let
- Couples sharing rental income

Key points

- Rent is taxable. Costs are allowable, with limits.
- Mortgage interest relief is restricted for individuals.
- Repairs are deductible, improvements are not.
- Joint owners are taxed on their shares.
- Think before buying through a company, or moving to one.

Joint ownership

Rent from a jointly owned property is generally shared equally between spouses or civil partners, unless a declaration is made to share it in line with their actual ownership. Putting more rent on the lower earner can reduce tax, but only if the ownership really matches. Take advice.

Owning through a company

A company can own property, and its profits are subject to corporation tax. The company can deduct mortgage interest in full, and there are different rules for gains and for taking money out. But it can have higher stamp duty and financing costs, and the cost of moving existing property into a company can include capital gains tax and stamp duty. It is a significant decision, and the answer depends on how many properties you plan, and on whether you will keep them or draw income. Ask before you act.

Selling

A sale may produce a capital gain. If it is residential property, a return and payment on account must normally be made within a short time of completion, so plan ahead. A property that was your home for part of the time may be entitled to some relief.

Other points to know

- **Furnished holiday lettings.** The special regime was abolished from April 2025, so check how your letting is taxed now.
- **Stamp duty** applies to additional residential properties at higher rates.
- **Records.** Keep rent receipts, agreements, bills and mortgage statements.
- **Making Tax Digital.** Landlords above an income threshold are being brought into digital reporting. See our guide.
- **Letting regulations,** such as safety certificates, deposit protection and licensing, are for your letting agent or solicitor, and penalties can be heavy.

Look at the whole position

Property income affects your tax rate on everything else, and the interest restriction means the tax can be higher than the profit suggests. A short review each year, and before buying or selling, is worthwhile.

Related guides

If this is useful, you may also want:

- Personal tax planning
- Capital gains tax
- Making Tax Digital

Landlord's checklist

- Rent and costs recorded
- Repairs vs improvements
- Mortgage interest treated correctly
- Joint ownership declaration
- Tax return and payment dates
- Plans to buy or sell

How King Street can help

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We prepare rental income computations and returns, advise on ownership, joint arrangements and company structures, plan sales and purchases, and make the filings with HMRC. For larger property portfolios, we work out the effect of different structures before you commit.

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