01 / START WITH THE NUMBERS

# Property rental tax, made clear.

What counts as rent, what you can claim and why profit can be higher than the cash left in your bank.

This guide mainly covers **UK-resident individuals letting UK residential property** in 2026/27. Company ownership is compared on page 3. Overseas residence/property, commercial premises and property development need a separate review.

## Rent is not the agent's net payment

If a tenant pays £1,000 and the agent keeps £120, record **£1,000 rent and £120 agent fees**, not £880 rent. Under the usual cash basis, rent received by your agent counts when they receive it.

A genuinely refundable tenancy deposit is not normally rent when received. Tell us when you become entitled to keep any of it.

## What is taxed?

Your rental profit is added to your other taxable income. Most ordinary property letting is not a self-employed trade, so it does not normally attract Class 4 National Insurance.

Most individual landlords use cash accounting, subject to eligibility: money received and qualifying costs paid. A company normally uses accounts-based rules instead.

A YEAR IN ONE EXAMPLE

**£24,000 rent**

Less £4,000 allowable running costs

**£20,000 taxable rental profit**

For an individual landlord, residential mortgage interest is dealt with separately as tax relief, not deducted here.

**Only £8,000 cash before tax**

£24,000 less £4,000 costs, £8,000 mortgage interest and £4,000 mortgage capital repayments.

WHY THE GAP MATTERS

Mortgage capital repayments reduce the loan you owe, not your taxable profit. Residential mortgage-interest relief has its own limits. Keep cash for tax instead of assuming the balance after your mortgage is all yours to spend.

Normally combine your UK rental properties into one UK property business. An overseas property business is separate. A commercial rental loss can usually be carried forward against future profits of the same property business, not deducted from your salary.

**CHECK THE RULES** Rental income and expenses · Rent received by agents and deposits · Property cash basis · Reporting rental income

02 / EVERYDAY EXPENSES

# Repairs are not the same as improvements.

Keep the invoice and a short explanation of what changed. The work's nature matters more than its label.

| Cost | Usual treatment for an individual landlord |
|---|---|
| Agent fees, landlord insurance and routine safety checks | Normally deductible for the letting business. |
| Repairing a leak, repainting or replacing worn fittings | Normally deductible repairs. A modern equivalent can still be a repair. |
| Adding an extension or creating a new room | Capital improvement, not a rent deduction. Keep evidence for a later sale. |
| Replacing a tenant's worn sofa or washing machine | Replacement domestic items relief may apply. Initial furnishing does not qualify under this relief. |
| Residential mortgage interest and relevant finance charges | Separate basic-rate tax relief, subject to limits. See page 3. |
| Mortgage capital, your own labour or private spending | Not a rental-expense deduction. |

### REPLACEMENT EXAMPLE

You replace a sofa with an upgraded £800 model. A like-for-like replacement would cost £600. Add £40 eligible delivery/disposal costs and deduct £50 received for the old sofa. **Potential deduction: £590.**

The old item must no longer be available to the tenant, and the replacement must qualify. Work to make a newly bought, unlettable property usable can be capital, particularly where its price reflected that condition.

## Two smaller reliefs to know

**£1,000 property allowance:** potentially available per person, not per property. It is an alternative to actual expenses, not an extra deduction. You cannot combine it with the residential finance-cost tax reduction.

**Rent a Room:** up to £7,500 of qualifying gross receipts from furnished accommodation in your main home can be exempt; normally £3,750 if another person also receives income. It is not the rule for an ordinary separate buy-to-let.

For mixed private and rental use, claim only the eligible part. Letting to family below a commercial rent can restrict expenses and losses. Ask before treating every refurbishment invoice as a repair or claiming two relief methods together.

**CHECK THE RULES** Rental income and expenses · Property allowance · Allowance versus finance-cost relief · Rent a Room

03 / MORTGAGE INTEREST

# Interest relief reduces the tax, not the profit.

For individual residential landlords, the normal 2026/27 rate of this tax reduction is 20%.

Using the same property: **£24,000 rent less £4,000 running costs = £20,000 taxable profit.** Mortgage interest is £8,000. Assume the full interest qualifies and all the profit falls in the stated tax band.

| Same property, different personal tax band | All at 20% | All at 40% |
|---|---|---|
| Tax on £20,000 rental profit | £4,000 | £8,000 |
| Less finance-cost tax reduction: £8,000 × 20% | £1,600 | £1,600 |
| **Income Tax attributable to the rental** | **£2,400** | **£6,400** |
| Cash after costs, interest and this tax | £9,600 | £5,600 |
| **Cash after a further £4,000 mortgage capital repayment** | **£5,600** | **£1,600** |

Assumes other income has already used the Personal Allowance, enough taxable income/profit to use all finance relief, and no losses, allowance withdrawal or benefit charges. Scottish rates differ. Paying 40% Income Tax does not turn the finance-cost reduction into 40% relief.

## The relief has limits

The calculation is normally limited by the lowest of eligible finance costs, property profits after relevant losses, and adjusted total income above your Personal Allowance. Savings and dividends are excluded from that last limit.

It cannot create a tax refund. Finance costs left unrelieved because the profit/income limit applies can normally be carried forward. Send the mortgage interest statement, not just the monthly payment total. A rental property used as security does not make a private loan eligible for relief.

## What changes in a company?

A property company can normally deduct eligible interest under company finance rules. Here, profit after interest would be **£12,000**. At 19% Corporation Tax, £2,280 tax leaves **£9,720 inside the company**, before mortgage capital repayments.

That is not £9,720 tax-free in your pocket. Salary/dividend taxes and the company's other costs matter. The 19% rate assumes eligibility; connected-party lettings and associated companies can change it.

**CHECK THE RULES** Residential mortgage-interest relief · Borrowing purpose versus security · Rental income and expenses · Property companies and small-profits rates · Corporation Tax rates · Dividend tax

04 / OWNERSHIP, BUYING AND SELLING

# Whose property is it, and who is taxed?

The bank account receiving the rent does not, by itself, decide who owns the income.

## Joint owners

Spouses or civil partners living together who jointly own a normal rental property are usually taxed **50/50**. Where their actual beneficial interests in the property and income are unequal, a valid **Form 17** can put tax on that actual split.

Beneficial ownership means the real entitlement to the property and its income. Form 17 reports existing unequal ownership; it does not create it. HMRC must receive the signed form and required evidence within **60 days of signing**. It is not retrospective.

For other joint owners, tax normally follows their share of the letting profits. Genuine agreements can matter. Ask before changing ownership, sending rent to a different account or altering the return split.

### MOVING A PROPERTY INTO YOUR COMPANY?

This is a real transfer, not just a bookkeeping change. It can trigger Capital Gains Tax, land transaction tax on market value, lender consent and refinancing/legal costs, even if no cash changes hands.

## Selling the property

Capital Gains Tax is based on the gain, not the sale proceeds left after repaying the mortgage. Purchase/sale costs, qualifying improvements, losses and reliefs affect the calculation.

For 2026/27, individuals normally have a **£3,000 annual gains exemption** and rates of **18% or 24%**, depending on taxable income and the gain. Earlier use as your main home can affect relief.

A UK resident selling UK residential property with CGT to pay normally must report and pay within **60 days of completion**. Do not wait for the annual tax return. Non-residents have wider UK-property reporting duties.

### COMPANY-OWNED HOMES

A company owning a home worth over £500,000 may need returns for the **Annual Tax on Enveloped Dwellings (ATED)**. Commercial letting relief can remove the bill but still require a return.

Land purchase taxes differ: SDLT in England/Northern Ireland, LTT in Wales and LBTT in Scotland. Transfers between spouses, partnerships, trusts and companies need their own review. This guide does not replace tenancy, licensing, safety or deposit-protection advice.

**CHECK THE RULES** Form 17 and actual ownership · Form 17: 60-day deadline · Property transfers and SDLT · Capital Gains Tax rates · Property gains: reporting and payment · Company-owned homes and ATED

05 / YOUR LANDLORD ROUTINE

# Keep the records moving throughout the year.

Tell SBX when you start letting, buy, sell, refinance or change who owns a property.

## What to send us

Rent and agent statements, all expense invoices, annual mortgage interest/fee statements, ownership shares and any private use. Also send purchase/sale completion statements, refurbishment details and retained-deposit records.

Keep normal Self Assessment business records for at least **5 years after the 31 January filing deadline**. For 2026/27, that is normally 31 January 2033. Keep asset and improvement evidence through the sale and the relevant later retention period.

## Your first return and tax payment

If you first need to report untaxed rent for 2026/27, normally notify HMRC by **5 October 2027**. The online return and usual balancing payment are due **31 January 2028**. Payments on account may also fall due in January and July.

The £1,000 allowance and HMRC reporting thresholds have conditions. Check whether a return is needed rather than assuming a small profit means nothing to report.

## Making Tax Digital (MTD)

| Relevant return shows qualifying income | MTD starts |
|---|---|
| 2024/25: over £50,000 | 6 April 2026 |
| 2025/26: over £30,000 | 6 April 2027 |
| 2026/27: over £20,000 | 6 April 2028 |

MTD uses your combined qualifying self-employment and property income before expenses. For jointly let property, use your relevant share. MTD means digital records, quarterly updates and an annual return, not quarterly tax bills. Exemptions can apply; companies are not in MTD for Income Tax.

### HOLIDAY LETS AND VAT

The special Furnished Holiday Lettings tax regime ended in April 2025. Ordinary residential rents are usually VAT-exempt; holiday accommodation can still be VAT-taxable. The VAT question is separate from the income-tax label.

### FROM 6 APRIL 2027

The government's published timetable introduces separate property-income rates of **22%, 42% and 47% in England, Wales and Northern Ireland**, with residential finance-cost relief at **22%**. The calculations in this guide use 2026/27, not those future rates.

**Contact our office or your account manager.**

info@sbxaccountants.com | 020 7046 1730

**CHECK THE RULES** Rental income and expenses · Self Assessment deadlines · Payments on account · MTD: who joins and when · Property tax changes from April 2027 · Holiday accommodation VAT