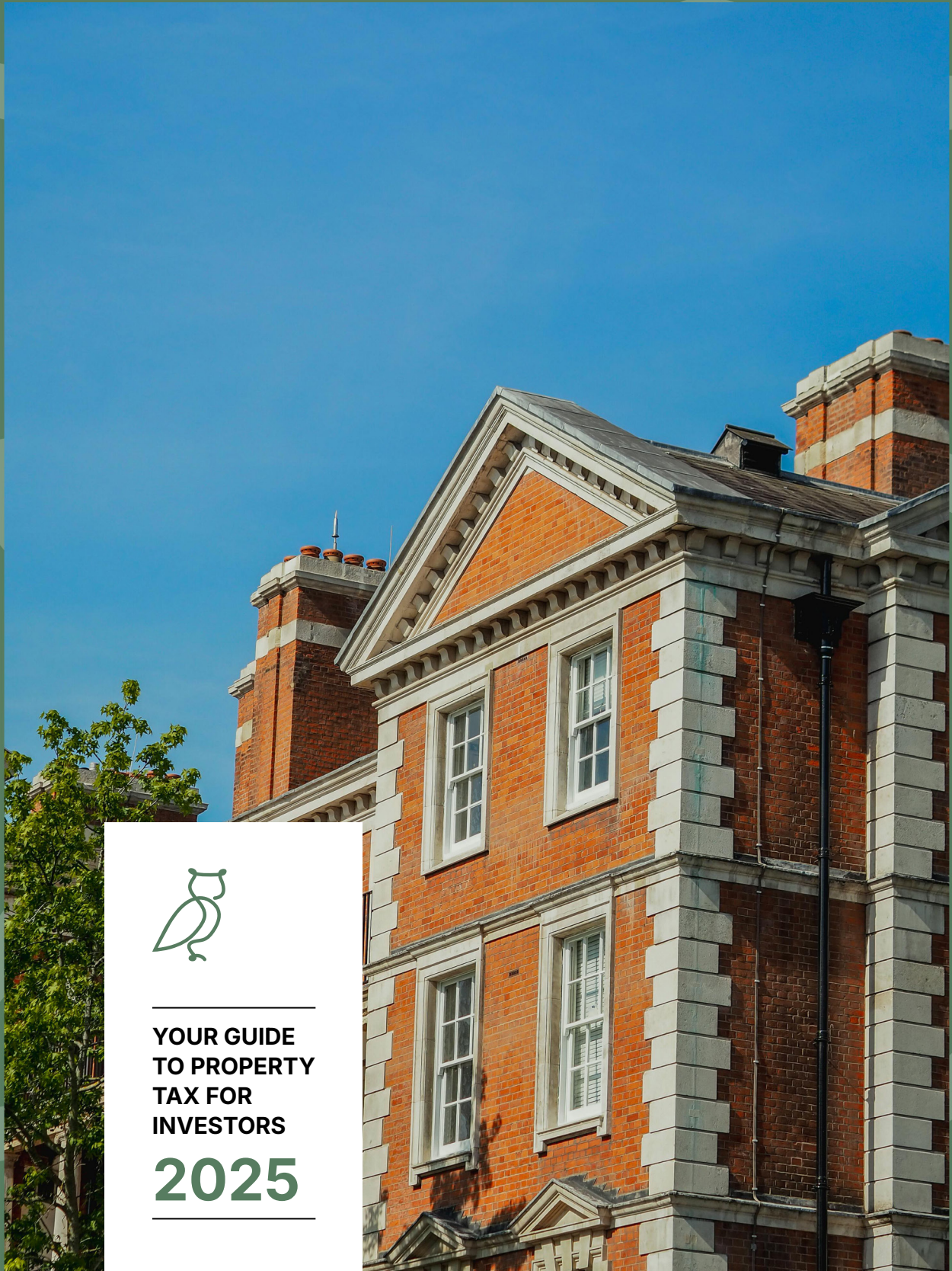




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**YOUR GUIDE  
TO PROPERTY  
TAX FOR  
INVESTORS**

**2025**

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## INTRODUCTION

Whether you're a first-time landlord or an experienced investor with a growing portfolio, understanding your tax obligations is essential to protecting your profits and planning for the future. We've created this practical guide to help property investors navigate the complex UK tax landscape. It outlines the main types of taxes landlords may be liable for and offers insights into how to structure your investments tax-efficiently. From Income Tax and Capital Gains Tax to specific reliefs like the Rent a Room scheme and Furnished Holiday Lettings, this guide is designed to help you stay compliant and make informed financial decisions.





**STRUCTURE**



**INCOME TAX**



**REPAIRS**



**FURNISHED HOLIDAY LETTINGS**



**RENT A ROOM**



**TRADING IN PROPERTY**



**CAPITAL GAINS TAX**



**BUSINESS PROPERTY**



**STAMP DUTY LAND TAX (SDLT)**



**INHERITANCE TAX (IHT)**

## 1. STRUCTURE

The structure through which to operate should be considered carefully at the outset. This may be by way of:

**Personal ownership** (whether individually or jointly with others)

**Partnership**

**Limited company**

**Trust**

Usually, personal or joint ownership will be most suitable for modest investors. Individuals can hold property with one or more persons. Generally, individuals who hold property will be taxed on the rental profits in accordance with the underlying beneficial ownership.

Where married couples or civil partners jointly own property, however, the rental income is automatically taxed upon them equally, i.e. 50:50 (default position). It is possible, however, to own the property in unequal shares and file an election with HMRC to be taxed on the actual basis (beneficial interest). This election is a useful tool for ensuring that allowances and rate bands are fully utilised with a view to mitigating the overall income tax liability.

Where property is held jointly as a genuine partnership, as opposed to joint ownership of investment property, a business partnership can be formed to manage the property letting business. Where such a partnership exists, the profits and losses from the letting business activity can be allocated between the various partners in any share agreed upon.

The profit share can be varied and does not have to follow the underlying ownership of the partnership assets (the properties).

Partnership businesses can incorporate an existing property portfolio. Care needs to be taken here due to the stamp duty land tax and capital gains tax implications on incorporation.

A company is most likely to be the right vehicle for larger investors who are planning to hold property ownership long-term. Profits can be sheltered from higher rates of income tax and there is flexibility over the extraction of profits. However, there is the potential double tax charge should a property be sold and the funds are subsequently extracted by the shareholders. The additional compliance and administration of operating through a corporate structure also needs to be considered.

Trusts have long been used as a means for people to protect their assets and to control their management, as well as determine how those assets are transferred to others and when. Trusts may be appropriate as part of an inheritance tax planning strategy and succession planning.

## 2. INCOME TAX

Individuals are liable to income tax on the profits they make from their rental business. All UK rental activities form a single business. A statement of income and expenditure needs to be drawn up to 5 April each year. The profit is calculated on a cash basis (subject to receipts not exceeding £150,000) unless electing for traditional accounting principles to apply.

The income tax due is collected through the self assessment system. Additional quarterly reporting obligations will be implemented as from April 2026 (see section Making Tax Digital for income Tax).

Any rental business loss is carried forward and set off against rental business profits of the same rental business in the following year. Rental business losses cannot be offset against other general income except in limited circumstances.

## 3. REPAIRS – REVENUE VERSUS CAPITAL EXPENDITURE

Expenditure on general repair and maintenance works is allowable as a business expense (revenue expenditure) i.e. the cost incurred can be offset against the rental income.

The cost of repairing a dilapidated asset (such as a roof) is generally considered to be a 'repair', whereas replacing the entirety of an asset is deemed to be 'capital' expenditure.

Replacing a fixture (such as a kitchen or bathroom) is a repair to a building and not the replacement of an asset in its entirety. For such expenditure to be considered a revenue expense, the replacement fixture must be similar to the replaced fixture (a 'like for like' replacement) or of a modern day equivalent.

Where improvements and/or upgrades have been made to fixtures, the expenditure is deemed to be 'capital' by nature and cannot be considered an allowable revenue cost. Expenditure which greatly enhances the value and nature of a property, such as a loft conversion or extension, is capital. Such costs are added to the cost of the property for capital gains tax purposes.

## 4. FURNISHED HOLIDAY LETTINGS (FHL)

FHL are charged under the property income rules. Special tax rules allow the commercial letting of FHL to be treated as a trade for some specified purposes – more beneficial capital allowances (on the cost of furniture & furnishings as well as plant & machinery) and certain capital gains tax reliefs (rollover relief, business asset disposal relief etc.).

Profits or losses arising from a FHL businesses should be calculated separately from other rental business profits and losses. Where an FHL let results in a loss, these losses can only

be carried forward and set against the FHL profits of the same FHL business. FHL in the UK are treated as a separate business to an FHL in the EEA.

To qualify for FHL status the property must be:



The property must be available for commercial letting as holiday accommodation to the public for at least 210 days during the relevant 12-month period.



The property must be commercially let as holiday accommodation to members of the public for at least 105 days during the relevant 12-month period.



Not let to the same person for a continuous period of more than 31 days.

A supply of holiday accommodation is standard rated for VAT purposes. Most property investors will not need to consider VAT, as their annual rental turnover will be under the VAT registration threshold. Care will however need to be taken by those who are already VAT registered, as the registration applies to all business activities of the individual or entity registered.



## 5. RENT A ROOM

Under the Rent a Room Scheme a qualifying individual is exempt from income tax on income from letting furnished accommodation in their only or main home, so long as the gross receipts are less than the exemption limit. However, you cannot then claim any of the expenses of the letting.

If the gross receipts exceed the exemption limit, you have a choice either to pay tax on the excess or to claim a deduction for actual property expenses in the normal way.

Unfurnished lettings and rooms let as an office or for other business purposes do not qualify.

## 6. TRADING IN PROPERTY

Some investors buy property and retain it as a long-term investment. In these circumstances, when a property is disposed of at a future date, the gain arising will usually be subject to capital gains tax.

In contrast, where properties are held for a relatively short period with a view to making a profit on sale, the activity may be considered that of trading as opposed to property investment. Assuming property is held personally for trading purposes, any gain here may be subjected to income tax and national insurance contributions, rather than lower capital gains tax rates.

## 7. CAPITAL GAINS TAX (CGT)

Principal private residence (PPR) relief is available if the property in question has been occupied as your only or main residence i.e. the property has been resided in as your 'home'. The gain accruing during a period of occupation is exempt from CGT. In addition, if the property has been occupied as a home at any stage, the gain accruing in the final 9 month period is also exempt from CGT. Other permitted periods of absence are also exempt if you resume residence (deemed occupation rules).

HMRC may challenge a claim for PPR relief if it is felt that the dwelling has not been occupied as a home. Relief will also be denied where occupation of a dwelling is merely to gain a tax advantage. HMRC will look at the quality of the occupation, not the quantity. Some form of permanence will need to be demonstrated in regard to the residence.

Where more than one residence has been occupied concurrently, a PPR election can be filed with HMRC (within 2 years of taking up occupation of the second residence) in order to elect which property is the main residence for tax purposes. Married couples can only have one main residence between them.

There is now an additional reporting requirement with HMRC. In the following circumstances, a sale of an interest in UK situated land & property needs to be reported to HMRC via an online CGT return within 60 days of completion. Any CGT due will also need to be cleared within the same 60-day period. Late filing penalties apply.

## 8. PROPERTY USED IN A BUSINESS – BUSINESS ASSET DEISPOSAL RELIEF (BADR)



A claim for BADR allows for a reduced CGT rate of 10% on the disposal of properties owned personally and used within the owner's trading business or personal company. Broadly speaking, the sale will need to be made in conjunction with a sale of the business itself.

Relief is restricted where rent has been charged for its use.

### Non-resident individuals

Where a landlord resides outside of the UK and holds UK property personally, the letting agent or tenant has an obligation to act as a collecting agent and deduct tax from the property income and pay the tax across to HMRC (under the non-resident landlord scheme). In such cases, however, you can apply to HMRC to have your rental income paid without the deduction of tax at source.

Non-resident capital gains tax is covered above ('Capital gains tax'). A PPR election is available where the non-resident individual spends at least 90 days per tax year at the residence i.e. the residence has to be used as a second or holiday home.

From 6 April 2019 non-UK residents are subject to UK tax on gains on direct and certain indirect disposals of interests in UK immovable property. Broadly, the indirect disposal rules will apply where a person makes a disposal of an entity in which it has at least a 25% interest where that entity derives 75% or more of its gross asset value from UK land. Disposals of interests in entities where the property is used in a trade are excluded from the charge, subject to certain conditions.

### Non-resident companies

Where a non-UK resident company which is not already within the charge to UK corporation tax becomes chargeable as a result of a disposal of UK property on or after 6 April 2019, it must register within 3 months of the date of that disposal. Corporation tax is generally payable 3 months and 14 days from the date of disposal.

Since 6 April 2020, UK corporation tax (rather than income tax) applies to rental income of UK property investment businesses whether or not the company holding the property is UK resident or non-UK resident. If the rent is to be paid to a non-UK resident company it will be necessary to make an application for rent to be paid gross, otherwise the letting agent or tenant will need to deduct 20% tax from the rent and account for this to HMRC before paying it over to the non-UK resident company.

## 9. STAMP DUTY LAND TAX (SDLT)

SDLT is a levy on transactions in land and buildings in England & N. Ireland.

The rates of SDLT are as follow:

Residential properties – you pay SDLT on increasing portions of the property price above £250,000 when you buy residential property.

Transfers of residential land & buildings (on band of consideration)

|                       |     |
|-----------------------|-----|
| £0 – £250,000         | 0%  |
| £250,001 – £925,000   | 5%  |
| £925,001 – £1,500,000 | 10% |
| Over £1,500,000       | 12% |



Non-residential (on band of consideration)

|                     |    |
|---------------------|----|
| £0 – £150,000       | 0% |
| £150,001 – £250,000 | 2% |
| Over £250,000       | 5% |



SDLT for buy to let property – an additional 3% surcharge will be charged on each band on purchases of additional residential properties (above the £40,000 threshold). The surcharge will not apply where the purchaser does not own another residential property.

First-Time Buyer relief may apply to residential purchases up to £625,000.

## 10. INHERITANCE TAX (IHT)

Whilst business relief is available to allow businesses to pass free of IHT, such relief does not generally apply to property portfolios as they do not constitute a 'business'.

With structured planning, however, there are steps that can be taken to mitigate the IHT payable on the value of an estate.

Possible lifetime gifting:



Trusts – CGT hold-over relief may allow property to be transferred into a trust without an immediate CGT charge. Care will need to be taken over the value transferred due to lifetime IHT charges. Succession planning can be achieved tax efficiently through the use of trusts.



Outright gifting – consider gifting properties that may have depreciated in value or realise capital losses to offset against capital gains on other gifted assets. Claim PPR relief where applicable.



Shares – gift tranches of shares in property companies over a period of time to utilise CGT annual exemptions.



