



# Property and Investment Income

The most likely tasks in this area fall into the following groups:

-  Calculating income from property
-  Dealing with income from investment assets

## ***Calculating Income from Property***

Income from UK property is usually in the form of rents received, but in practice could include lease premiums on leases not exceeding 50 years too.

*The income is assessable on an accruals basis, using ordinary accounting principles.*

In other words, the assessment is based on income earned rather than money received. Income is taxed as it falls due, regardless of when it is actually received.

Expenditure may be deducted from the income if it is incurred wholly and exclusively for the purposes of the property letting business (note that this is a less stringent rule than that shown above under employment income).

Capital expenditure is not deductible, but if furniture is provided, relief may be obtained in either of two ways:

- Renewals basis - no relief when the furniture is originally purchased, but subsequent expenditure on replacements (not improvements) is fully deductible
- Wear and Tear - this allowance is available each year at 10% of rent receivable, net of any council tax and water rates paid by the landlord on behalf of the tenant

As from 6 April 2004, landlords may claim relief for expenditure on loft and cavity wall insulation in let residential property, up to £1,500 per property.

### **Example**

Paul owns a flat let furnished. He has charged rent at £7,200 pa for a number of years (payable monthly in advance), but changed this to £7,800 pa with effect from 1 October 2009. The flat was let up until 31 January 2010, after which Paul lived in the flat himself for the remainder of the tax year.

Expenditure for the tax year 2009/2010 was as follows:

Council tax and water rates	1,320
Advertising for tenants	200
Cleaning (only when let)	720
Insurance	480

Paul intends to claim the wear and tear allowance.

Calculate his income from property assessment for 2009/2010.

### **Solution**

During the tax year, the flat was let for 10 of the 12 months. For 6 months rent was payable at £600 per month ( $£7,200/12$ ), for the remaining 4 months the rent was £650 per month ( $£7,800/12$ ).

On the expenditure side, all the stated expenses would normally be allowable. However, the council tax and water rates, together with the insurance, are stated for the whole year, but are only allowable for the 10 months the flat was let.

The assessment is calculated as follows:

Rent receivable	$[(£600 \times 6) + (£650 \times 4)]$	6,200
Council tax and water rates	$(£1,320 \times 10/12)$	1,100
Advertising		200
Cleaning		720
Insurance	$(£480 \times 10/12)$	400
Wear and tear	$[(£6,200 - 1,100) \times 10\%]$	510
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		2,930
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Assessment		3,270
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A point worth remembering is that income from property and related expenses are NOT dealt with on an individual property basis, but are pooled. This means that any losses on individual properties will automatically be set against profits from other properties in the same year.

If total property income is exceeded in a year by total expenses (so there is a net loss), this is carried forward and must be relieved against the first available property income in subsequent years. Property income losses may **NOT** be set against income from other sources.

### ***Dealing With Income From Investment Assets***

Dividends received from UK shares will be taxed based on the income for the year, equal to the dividends received plus the attached tax credits (multiply the amount received by 100/90).

Dividends are treated as the top slice of taxable income. Within the basic rate band they are taxed at 10%, above this they are taxed at 32.5%. The attached tax credits are set against the tax liability on those dividends, but cannot be refunded or set against the liability from other income. Note that this means a basic rate tax payer will have no further liability on dividends received.

Interest is usually received net of 20% income tax. This income must be grossed up for inclusion in the tax computation ( $\times 100/80$ ). It is classed as *savings income*, so ranks just below dividends. Any interest falling in the basic rate band is taxed at 20%. The tax suffered may be deducted from the overall liability.

Note that the following interest payments are made gross:

- NSB investment account interest
- Interest on gilts (if taxpayer has opted for gross interest)
- Interest received by an individual who is self-certificated as a non-taxpayer

Such interest is still classed as savings income, and is still taxed as it arises.

Individual Savings Accounts (ISAs) were introduced in 1999 as a tax free method of saving. They are available to individuals who are both resident and ordinarily resident in the UK, and are aged 16 or over.

Any interest, dividends or bonuses from an ISA are exempt from income tax. Withdrawals may be made at any time without loss of tax relief.