

i Contacts

Please phone:

- the number printed on page TR 1 of your tax return
- the SA Helpline on **0845 9000 444**
- the SA Orderline on **0845 9000 404** for helpsheets

or go to
www.hmrc.gov.uk

Rent a Room for traders

This helpsheet will also be of use to non-traders.

If your trade involves providing furnished accommodation, this helpsheet will help you fill in the *Self-employment* pages (*short* or *full*) of your tax return taking into account the Rent a Room scheme, if it applies. If the provision of furnished rooms does not amount to a trade, do not fill in the *Self-employment* pages; fill in the *UK property* pages instead.

Rent a Room scheme

Rent a Room applies only to owner occupiers and tenants who receive rent from letting furnished accommodation in their only or main home. If your gross receipts (before expenses and including any amounts received for meals, goods and services provided, such as cleaning or laundry) and any balancing charges do not exceed £4,250 you will be exempt from Income Tax on any profits made. You can however, opt out of Rent a Room; you may want to do this if you have made a loss.

If your gross receipts are more than £4,250 you can choose between paying tax on:

- your actual profit (gross rents minus actual expenses and capital allowances), or
- gross receipts (and any balancing charges) minus £4,250 – with no deduction for expenses or capital allowances.

Rent a Room relief applies to a tax year and the limit of £4,250 is reduced to £2,125 if during the basis period someone else received income from letting accommodation in the same property (see page 2).

Rent a Room does not apply to income from accommodation used as an office or for business other than by genuine lodgers (for example, students who are provided with study facilities in their lodgings, or lodgers who do some work in your home in the evenings or weekends).

If your receipts are not for a period:

- of 12 months, or
 - from the date you started letting up to 5 April 2012, or
 - from 6 April 2011 to the date you ceased letting
- please contact us or speak to your tax adviser.

Although it has no bearing on tax, you may want to check whether:

- your lease allows you to take in lodgers, if you rent your home
- your lender has any objections to you taking in lodgers, where you have a mortgage
- your insurance company is content; your cover may be inadequate if your circumstances have changed.

Completing your *Self-employment* pages

If your gross receipts (and balancing charges) are less than £4,250 (or £2,125 if appropriate) and you want to claim Rent a Room exemption, enter 'Rent a Room' in box 1 (*short* pages) or box 2 (*full* pages) and leave the rest of the pages blank.

If your gross receipts (and balancing charges) are more than £4,250 (or £2,125) and you want to claim Rent a Room relief (so you cannot claim for any expenses of the letting):

- enter 'Rent a Room' in box 1 (*short*) or box 2 (*full*)
- fill in boxes 2 to 7 (*short*) or 1 to 9 (*full*), as appropriate
- enter the gross receipts (including services provided and balancing charges) in box 8 (*short*) or box 14 (*full*)
- enter £4,250 (or £2,125) in box 19 (*short*) or box 29 (*full*)
- if you have any balancing charges enter them in box 25 (*short*) or box 58 (*full*).

If you do not want to claim Rent a Room relief fill in the *Self-employment* pages in the usual way (claiming expenses and capital allowances as appropriate).

Details of the Rent a Room exemption limits

The exemption limit of £4,250 is not reduced for periods of letting of less than 12 months. However, the exemption limit of £4,250 is reduced to £2,125 if, during the tax year to 5 April, someone else received income from letting accommodation in the same property. This might happen where you own your home jointly with another person.

You move home during the year

The Rent a Room rules apply to the total gross furnished letting receipts for the tax year from your own home. If you move home, and lettings in both your old and new home qualify for Rent a Room relief during the same year, you must add together the rents from both to find the total receipts.

You move abroad

If you let your home in the UK while you live abroad, you will not normally be within Rent a Room. This is because the let property will not usually be a residence of yours at any time during the basis period for the letting. Ask us or your tax adviser for advice.

You are below the exemption limit

Where you are below the exemption limit you are automatically exempt from tax. But you can ask to be taxed in the normal way – that is, on your receipts less expenses. This may be to your advantage where, for example, you have a loss and you would like to use that loss. A similar point may arise where you are taxed on the excess of your receipts over the exemption limit but you actually made a loss.

Lodger provided with services that amount to trade – basis period

Some lettings may amount to a trade. This is likely to happen where you run a guest house or bed and breakfast business, or if you provide material services, for example, meals and cleaning. If your lettings amount to a trade, Rent a Room relief may still be claimed, but you should exclude any assessable profits from your rental business and return them as trading profits.

The basis period for a property business must be the tax year itself (the year to 5 April) or the actual period of letting in the tax year if this is shorter. But if your letting activity amounts to a trade, you can choose a different annual period (generally a period of one year ending on a date in the tax year).

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You will usually find your tax calculations easier if you stick to a 5 April year end.

Two Rent a Room methods for receipts above exemption

The Rent a Room scheme provides two ways to work out your tax when your receipts are above the exemption limit of £4,250 (or £2,125 if someone else also had income from the same property in the same period). You can choose which of the following two methods is best for you:

A paying tax on the profit you make from letting, worked out in the normal way for a rental business (that is, rents received minus expenses), or

B paying tax on the gross amount of your receipts (including receipts for any related services you provide) minus the £4,250 (or £2,125) exemption limit.

Method A applies automatically unless you tell us within the time limit (see page 4) that you want method B.

Once you have chosen method B it continues to apply until you tell us you want method A. You must tell us within the time limit if you decide you no longer want method B to apply. You may want to do this where the taxable profit is less under method A or where expenses are more than the rents (so there is a loss).

For example, your gross receipts may be £5,000 but your expenses are £6,000 so you have a loss of £1,000. Unless you opt out of method B, you will still be taxable on the excess of the gross receipts of £5,000 over the exemption limit of £4,250; that is, the taxable profit from letting in your own home will be £750.

Example where method A is better – John

John lets out a room in his own home for a rent of £150 a week plus contributions to the heating and light. His total letting receipts for the year from letting the room are £7,800 rent plus £200 for light and heating = £8,000.

He has expenses of £4,500 so his profit is £3,500. The excess of his gross receipts over £4,250 is £3,750 (£8,000 minus £4,250).

- Using method A, John pays tax on his actual profit of £3,500.
- Using method B, John pays tax on a profit of £3,750.

In John's case, method A is better. Therefore, he either does not choose method B or, if he has already done so, he tells us that he no longer wants it to apply.

Example where method B is better – Florence

Florence lets out a room in her own home for £150 a week. Nobody else lets a room in the house. Her gross receipts for the year are £7,800. She is not exempt from tax because her gross receipts exceed the exemption limit of £4,250. She has expenses of £1,000 so her profit is £6,800. The excess of her receipts over £4,250 is £3,550 (£7,800 minus £4,250).

- Using method A, Florence pays tax on her actual profit of £6,800.
- Using method B, Florence pays tax on a profit of £3,550.

In Florence's case, method B is better and she chooses it.

Changing from method A to method B and back

You can change from method A to method B (and back) from year to year. But each time you want to change you must tell us within the time limit.

Method B will automatically cease if the rent drops below the exemption limit of £4,250 (or £2,125). You will then be automatically exempt from tax on this rental income unless you ask within the time limit for your actual profit or loss to be taken into account. If, in the following year, your gross receipts go up and you want to use method B again, you must tell us within the time limit. Otherwise, you are automatically taxable on the normal rental business basis (receipts minus expenses).

Rent a Room and losses

Losses cannot be created under the Rent a Room scheme. So, if you are under the exemption limit or you are taxable under method B, any actual loss you make cannot be relieved unless you tell us within the time limit that you do not want Rent a Room to apply.

Any losses outstanding from earlier years when your rents were not within the Rent a Room scheme are not wasted. They are dealt with as follows:

- suppose your gross receipts from letting in your own home in the current year are no more than £4,250 (or £2,125) and you therefore have no tax to pay on that income. The full amount of any losses from an earlier year can be brought forward and set against any other business profits of the current year. If there are no other business profits in the current year, the losses can go forward to be set against the first business profits of a later year. The losses are not reduced because Rent a Room exempts or reduces your tax bill for the year
- suppose your gross receipts from letting in your own home are more than £4,250 (or £2,125). Here the earlier losses can be set against your net profits in the normal way (however the taxable profits are calculated). That is, whether the income from letting in your own home is calculated under method A or B and whether or not there is any other letting. For example, suppose you have no other lettings and you chose method B. Here your business profits will be the excess over £4,250 (or £2,125) and it is this excess amount that will absorb any losses. Any remaining losses will then be allowable against the taxable business profit of the following or later year, however calculated.

Interest, alternative finance payments and Rent a Room

Interest paid on a loan or payments under an alternative finance arrangement used to buy a property cannot be claimed as a deduction in your rental business if Rent a Room applies during a year. That is, if:

- your receipts from letting a room in your own home are below the exemption limit and you have not opted out of Rent a Room, or
- you elect for method B, where the tax is simply based on the excess of receipts over the exemption limit.

This is the same treatment as applies to any other expenses.

Rent a Room

There is a time limit within which you must tell us if:

- you do not want to be exempt when your gross receipts are below the exemption limit of £4,250 (or £2,125), or
- you want method B to apply, or want it to stop applying.

The time limit is five days less than 22 months from the end of the tax year (that is, 31 January).

Extension of time limit for Rent a Room

The time limit for letting us know what you want done is strictly applied. But we may extend the time limit in certain exceptional circumstances, for example, where you have been seriously ill for some time and it was impossible for you to deal with your tax affairs. The limit is unlikely to be extended if you leave everything to the last minute and then have a minor illness. If, for some good reason, you have missed a time limit, please explain the circumstances.

These notes are for guidance only and reflect the position at the time of writing. They do not affect any rights of appeal. Any subsequent amendments to these notes can be found at www.hmrc.gov.uk