HM Revenue & Customs

Notes on TRUST AND ESTATE UK PROPERTY

CONTENTS

HELPSHEETS

Helpsheets giving more detailed information about particular tax rules for UK property are available from **hmrc.gov.uk/selfassessmentforms** using *Find a form*, or from the Self Assessment Orderline on **0845 9000 404**.

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- Helpsheet 251 *Agricultural land*
- Helpsheet 252 *Capital allowances and balancing charges*
- Helpsheet 253 *Furnished holiday lettings*

Filling in the Trust and Estate UK Property pages

The *Trust and Estate UK Property* pages apply both to rental businesses with numerous properties, and to trusts or estates with one property to rent.

Complete these pages if the trust or estate has:

- rental income and other receipts from land and property in the UK
- chargeable premiums arising from leases of land in the UK
- furnished holiday lettings in the UK or European Economic Area (EEA)
- a reverse premium.

Do not include income from land or property overseas except for EEA furnished holiday lettings income. If you want to claim Foreign Tax Credit Relief for any foreign tax paid, you should complete page TF3 on the *Trust and Estate Foreign* pages. The *Trust and Estate Foreign* pages are available at **hmrc.gov.uk/forms/sa904.pdf** or you can phone the Self Assessment Orderline for a copy.

Do not include income from land or property:

- that you hold in strict settlement governed by the provisions of the Settled Land Act 1925, **or**
- the letting and management of which you have delegated to a beneficiary under S29(1) Law of Property Act 1925 or under S9 of the Trusts of Land and Appointment of Trustees Act 1996.

In both cases it will usually be the tenant for life who is carrying on the rental business and the income and expenses should be included in their personal tax return.

There are certain receipts that arise out of the use of land that you should not include in these pages. You must fill in the *Trust and Estate Trade* pages if the trust or estate runs the following type of business:

- canals, inland navigations and docks
- mines and quarries, including sandpits, gravel pits and brickfields
- rights of markets and fairs, tolls, bridges and ferries.

This list is not comprehensive. If you do not know whether to include a particular sum, ask us or your tax adviser.

Gather together your records of rents received and expenses

If the trust or estate owns property which is let as a furnished holiday letting, follow the guidance starting below.

If the trust or estate lets property other than furnished holiday lettings, you should follow the guidance starting on page TLN4 about other taxable income from land and property in the UK.

Everyone who fills in the Trust and Estate UK Property pages should read the general guidance below.

■ *Return period*

Include in these pages all trust or estate profits arising in the year from 6 April 2012 to 5 April 2013 from any land or property held in the UK. You must allocate income and expenses to the correct return period.

If you have accounts for the property income for the period to 5 April 2013, you should transfer the figures in those accounts to these pages.

If you have accounts for the property income for a period ending on any other date, you should apportion figures in the set of accounts that between them cover the period from 6 April 2012 to 5 April 2013, before putting figures on the *Trust and Estate UK Property* pages.

Accounts are prepared for a variety of reasons and in a variety of ways. It may not be immediately obvious where you should enter some of your figures. The notes that follow are designed to give guidance in the most difficult areas but they are not intended to be hard and fast rules.

In some instances you may need to combine or apportion your figures to fit the Trust and Estate Tax Return. If you include an expense under one heading where another may be equally appropriate, you should be consistent from one year to the next.

Make sure that you transfer **all** the entries in your accounts and that you include them **once** only.

If you do not have accounts, you should fill in the pages, bearing in mind that the taxable profit should be worked out using generally accepted accounting practice. If you need help, ask us or your tax adviser.

Furnished holiday lettings (FHL) in the UK or European Economic Area (EEA)

Properties that are let as 'furnished holiday lettings' are treated differently from other properties for tax purposes and have certain tax advantages. You can find more information in Helpsheet 253 *Furnished holiday lettings*.

If the trust or estate has furnished holiday lettings, start by filling in the first of the *Trust and Estate UK Property* pages. Then fill in the second page. Details of **other rental and business income and expenses** go on the second page (see the notes starting on page TLN4).

What is a furnished holiday letting?

A letting is usually regarded as a furnished holiday letting if it is a property that is:

- situated in the UK or EEA, **and**
- furnished, **and**
- available for holiday letting to the public on a commercial basis for 210 days or more during the year (the availability condition), **and**
- actually let commercially as holiday accommodation for 105 days or more during the year (the letting condition).

These limits are revised for 2012–13. There are other rules on long term lettings. Please read Helpsheet 253 if you think your property may qualify as a furnished holiday letting.

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Notes on TRUST AND ESTATE UK PROPERTY

EEA businesses

If you have an FHL business in the EEA, complete boxes 3.1 to 3.19 following the guidance below and put an 'X' in box 3.18. Use the *Trust and Estate Foreign* pages if you wish to claim Foreign Tax Credit Relief for any foreign tax paid on your EEA FHL – you should complete the section headed 'Foreign savings income taxable on the remittance basis and foreign income from land and property abroad'.

If you have both a UK FHL business and an EEA FHL business complete a separate page for each business and put an 'X' in box 3.18 for the EEA business.

- Income from furnished holiday lettings

box 3.1 Enter in box 3.1 the gross amount of income arising from properties that qualify as holiday lettings in the UK or EEA. This includes all the rents which relate to the year ended 5 April 2013 and any monies you got from the provision of any services to tenants. Non-resident landlords should show income here before deduction of tax. This will be included at box 3.21.

Joint holiday lettings

If the trust or estate lets holiday property jointly with one or more other people, include the trust's or estate's share of the income in box 3.1 and the share of expenses in boxes 3.2 to 3.7.

If notice of that share of income is received after expenses have been deducted, enter the share of profit in box 3.1, leaving boxes 3.2 to 3.7 blank (unless there is a loss, in which case enter it in box 3.7). Tick box 3.45 to show that these *Trust and Estate UK Property* pages include details of shared property and enter the name and address of the person nominated to keep records in the 'Additional information' box, box 21.11, on page 12 of the Trust and Estate Tax Return.

Expenses

If the trust's or estate's total property income in the year, including furnished holiday letting income, before expenses is less than £15,000 annually, you do not have to list expenses separately. Instead, put total expenses in box 3.7.

The following guidelines give an indication of the main types of expenses likely to arise from holiday lettings, and what usually can or cannot be claimed as a deduction.

Non-allowable expenses:
- a trustee's or personal representative's personal expenses (see the notes about box 3.10 on page TLN3)
- capital costs, such as expenses relating to the purchase of the land or property it intends to let, or the cost of purchasing machinery, furnishings or furniture
- any loss made on the sale of a property.

Allowable expenses:
- in general any costs incurred for the sole purpose of earning business profits
- you may be able to claim capital allowances or a renewals deduction on the cost of buying a capital asset.

The expenses must be allocated to the correct return period and it may be necessary to apportion certain expenses to arrive at the correct amount.

If you include any expenses in boxes 3.2 to 3.7, make sure that you do not include them again in boxes 3.24 to 3.29 on page TL 2.

- Rent, rates, insurance, ground rents, etc.

box 3.2 Any rent paid under a lease of a property let to someone else as a furnished holiday letting can be deducted in working out business profits.

Other expenses connected with the property such as business rates, Council Tax, water rates, ground rents or feu duties are also allowable. Enter in box 3.2 the total of these expenses incurred in the period for all properties in the business.

Include in box 3.2 any expenses the trust or estate must incur as landlord to insure the furnished holiday letting and its contents.

Insurance against loss of rents is also an allowable cost, but you must include in box 3.1 any income you receive as a result of taking out such an insurance. Insurances that extend beyond the lettings business, such as personal policies or those insuring the trustee and personal representative's private belongings, are not allowable costs.

- Repairs, maintenance and renewals

box 3.3

Repairs and maintenance

Expenses that prevent the property from deteriorating can be deducted as a repair. Examples include exterior and interior painting, stone cleaning, damp treatment, roof repairs, furniture repairs and repairs to lifts and other machines that form part of the property.

You cannot deduct the cost of expenditure incurred on improvements, additions and alterations to the property. Nor can you claim a deduction for the cost of notional repairs that are no longer required as a result of this capital expenditure.

If you are in doubt about whether any work on the property is a repair or maintenance, ask us or your tax adviser.

Renewals

You can claim as an expense the cost of replacing furniture, furnishings and machinery supplied with the trust's or estate's property where capital allowances are not claimed. You can include the renewal of small items such as knives and forks. If you opt for a renewals deduction, you may deduct the cost of replacing any such equipment, but not the cost of the original purchase. Deduct from the replacement cost any sum received for the item you have scrapped or sold. Also deduct any part of the replacement cost that represents an improvement or addition to the original item.

Enter in box 3.3 the total of any such expenses on renewals (and repairs and maintenance) incurred in the period for all the properties in the business. If you are in doubt about what sum to claim as a renewal, ask us or your tax adviser.

- Finance charges, including interest

box 3.4 Include in box 3.4 expenses that relate to the financial side of the rental business. Costs incurred in obtaining a loan or an alternative finance arrangement to buy a property that is let are allowable as a deduction. So is any interest incurred on the loan or alternative finance payments under an alternative finance arrangement. An alternative finance payment is the charge made by your finance provider over and above the original cost of the asset in the alternative finance arrangement. If you are unsure whether any financial cost is allowable as a deduction, ask us or your tax adviser.

- Legal and professional costs

box 3.5 Below are some examples of expenses you cannot deduct and those you may.

Non-allowable expenses:

- expenses in connection with the first letting or subletting of a property for **more than one year**. These include, for example, legal expenses (such as the cost of drawing up the lease), agents' and surveyors' fees and commission
- any proportion of the legal, etc. costs that relates to the payment of a premium on the renewal of a lease
- fees incurred in getting planning permission or on the registration of title when buying a property.

Allowable expenses:

- expenses for the let of a **year or less**
- management fees relating to the ongoing costs of letting (for example, rent collection, etc.)
- the normal legal and professional fees incurred on the renewal of a lease, if the lease is for less than 50 years
- professional fees incurred evicting an unsatisfactory tenant, with a view to reletting, or those on an appeal against a compulsory purchase order
- professional fees in drawing up accounts.

If you are unsure whether any legal or professional fee is allowable as a deduction, ask us or your tax adviser.

- Cost of services provided, including wages

box 3.6 If, in addition to letting a property, the trust or estate provides any service to the tenant (such as gardening, porterage, cleaning or even something like communal hot water) that requires a degree of maintenance and thus expense, you can claim the cost of these services to the extent that they are provided wholly and exclusively for the purposes of the letting.

You should include in box 3.6 the total of any expenses for all properties and their associated services. If the trust or estate receives any income for any service it provides, you should include this in box 3.1.

- Other expenses

box 3.7 Enter in box 3.7 all expenses incurred wholly and exclusively for the purposes of the rental business that are not already included in boxes 3.2 to 3.6. Examples include the costs of rent collection, advertising for tenants, travelling solely for business purposes, stationery, phone calls and other miscellaneous expenses.

A trustee's or personal representative's personal expenses are **not** allowable. If the trust or estate spends money on something used only partly for the property, you must only enter the amount expended for business purposes in box 3.7. Alternatively, enter the whole amount and deduct in box 3.10 the proportion of the cost that represents personal use.

Include any foreign tax deducted on your EEA FHL income here. However, if you are a non-resident FHL landlord enter the tax taken off your income at box 3.21.

Lease premium relief

Where the trust or estate (or an earlier tenant) paid a premium to the landlord when the lease was granted, and the trust or estate is subletting the property in the property business, you may be able to claim a deduction for part of the premium paid. The relief for premiums paid is only due on amounts which are chargeable on the landlord as income (or would be if the landlord were liable to tax). If you think you are entitled to a deduction for a premium paid, ask us or your tax adviser. You should enter the amount of the allowable deduction in box 3.7. The notes for box 3.22 on page TLN5 explain how to calculate the part of the premium taxable on the landlord as income.

Tax adjustments

To arrive at the trust's or estate's taxable income (or the loss allowable for tax purposes) you need to make certain adjustments to the net profit or loss arising in the year.

- Private use

box 3.10 Private and personal expenses are not allowable. If the trust or estate spends money on something used only partly for its rental business and partly for a non-business reason you must either:

- enter the amount expended for business purposes in boxes 3.2 to 3.7, **or**
- enter the whole expenses in those boxes and deduct in box 3.10 the proportion of the cost that represents the personal use or the non-business element.

For example, if the trust or estate lets a property for only eight months in a year and it is used by the trustee or personal representative in the other four months, you can put the full annual cost of insuring the property in box 3.2. If you do, you should add back one third of that cost in box 3.10.

If you are in any doubt whether a particular expense needs to be apportioned between business and private use, ask us or your tax adviser.

- Capital allowances and balancing charges

boxes 3.11 and 3.13 In working out the profit from furnished holiday lettings you must not deduct:

- the cost of buying, altering, building, installing or improving fixed assets, **or**
- depreciation or any losses that arise when you sell them.

Instead, the trust or estate may be able to claim **capital allowances** in box 3.13. These **reduce** a profit or **increase** a loss. An adjustment, known as a **balancing charge**, may arise when the trust or estate sells an item, gives it away or stops using it in the business. Enter the amount of **balancing charges** in box 3.11. These **increase** a profit or **reduce** a loss.

Your tax adviser, if you have one, will be able to tell you how to calculate capital allowances and balancing charges.

If you do not have a tax adviser, or want to check your calculation, you can find more information in Helpsheet 252 *Capital allowances and balancing charges*.

box 3.13A Tick box 3.13A if box 3.13 includes enhanced capital allowances for spending on designated environmentally beneficial technologies. See Helpsheet 252 *Capital allowances and balancing charges*.

Losses

box 3.14 If you have any unused FHL losses from last year, or earlier, record them here up to the level of the FHL profit. Any non-FHL property income losses up to the level of the FHL profits can also go here. See boxes 3.40 and 3.42.

box 3.17 Add to the figure in box 3.16 any unused FHL losses of earlier years.

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- EEA business

box 3.18 Put an 'X' here if your business is in the EEA. If you have several properties in different EEA states, you need only complete one EEA form – you don't have to use a separate page for each state.

- Period of grace election

box 3.19 Put an 'X' here if any property qualified as an FHL property in 2011–12 but does not reach the occupation threshold in 2012–13. See Helpsheet 253 *Furnished holiday lettings*, page 3.

Other property income

If the trust or estate owns land or property in the UK and enters into any transaction that results in rents or other receipts from the land or property, it is treated as operating a rental business and is taxable on the profits.

The concept of a rental business is broad. The rental profit or loss takes account of all rental and similar income, and related expenses, resulting from the exploitation of land or property in the UK. All activities by which the trust or estate derives income from land and property in the same capacity are treated as activities of the one business. It does not matter whether the trust or estate has a single property or numerous properties. All form a single business.

The guidance below tells you what income and what expenses should be included in the profits or losses of the rental business.

For most rental businesses the information you give on the *Trust and Estate UK Property* pages will be sufficient. But if there are any points that need further explanation please provide details in the 'Additional information' box, box 21.11, on page 12 of the Trust and Estate Tax Return.

If the *Trust and Estate UK Property* pages and box 21.11, if appropriate, do not provide a full and fair picture of the trust's or estate's rental business you may consider the submission of further information, including perhaps accounts or supplementary calculations, necessary. But you must complete the *Trust and Estate UK Property* pages as well.

Income

- Rents and other income from land and property

box 3.20 Enter in box 3.20 the total of all income arising to the trust or estate from any land and property you have in the UK, except income arising from holiday lettings, chargeable premiums and reverse premiums (see the notes on boxes 3.22 and 3.22A on page TLN5).

Income includes receipts in cash or in kind. It is taxable when it is earned, even if the trust or estate does not receive the money or goods until later. **Include** in box 3.20 any rent the trust or estate receives (or will receive) after 5 April 2013 which is payment for the year ended 5 April 2013 (because it is paid in arrears). **Exclude** any rent received which relates to any period after 5 April 2013 (because it is paid in advance). It must be included in the income for the year to which it relates. **Make sure you do not count money received in this year if it was included in an earlier year.**

If the trust or estate receives income from way leaves and also receives rents from some or all of the land to which the way leaves relate, include the way leaves at box 3.20. If the trust or estate is carrying on a trade and the land to which the way leaves relate is used in that trade, include the way leaves as part of the trading income at box 1.50 of the *Trust and Estate Trade* pages. Otherwise, include the way leaves as 'other income' at boxes 9.32 and 9.34 on page 5 of the Trust and Estate Tax Return.

Generally, most income will be rental income from a tenancy, leasing or licensing agreements over the land or property. You should include rental income from furnished, unfurnished, commercial and domestic accommodation, and from any land, in the overall total. If the property is let furnished, any sums that a tenant may pay for the use of furniture will be taxable as income of the business. You should add all this income together and enter it in box 3.20.

Property let jointly

If the trust or estate lets property jointly with one or more other persons, include only the trust's or estate's share of income in box 3.20 and the share of expenses in boxes 3.24 to 3.29.

If notice of that share of income is received after expenses have been deducted, enter the share of profit in box 3.20, leaving boxes 3.24 to 3.29 blank, or of any loss in box 3.29. Tick box 3.45 to show the *Trust and Estate UK Property* pages include details of shared property, and enter the name and address of the person nominated to keep records in the 'Additional information' box, box 21.11, on page 12 of the Trust and Estate Tax Return.

Receipts other than rent

Receipts other than rents are also taxable. Some of the main categories are:

- rent charges, ground rents and feu duties
- income arising from the grant of sporting rights
- income arising from letting others tip waste on the land
- income from letting someone use the land when no lease or licence is created; for example, receipts from a film crew who pay to film on the land
- grants received from local authorities towards the cost of repairs of a property – see the notes for box 3.25 on page TLN6 for guidance on claiming relief for expenses on repairs
- include any income from land and property from any Enterprise Zone Trusts (include **interest** from Enterprise Zone Trusts in boxes 9.12 to 9.14 on page 4 of the Trust and Estate Tax Return).

This list is not comprehensive. If you do not know whether to include a particular sum, ask us or your tax adviser.

- Tax deducted

box 3.21 Certain income from property is received after tax has been deducted and accounted for to us. The main type of income from which tax may be deducted is rental income received by a landlord whose usual place of abode is outside the UK.

If the income in box 3.20 includes payments to the trust and estate from which tax has been deducted, enter the amount of tax deducted in box 3.21. Also enter any tax on income received by non-resident landlords on FHL income. See box 3.7.

You should make sure that the amount of income entered in box 3.20 includes any tax deducted. In other words it should be the total amount received plus the tax that has been deducted. It should not be just the amount received after the tax has been deducted.

• Chargeable premiums

box 3.22 The income of the rental business may include premiums paid for the grant of a lease and certain other lump sum payments, and other forms of consideration given in connection with the right to possession of a property. These are taxable on a special basis.

Broadly, for leases over 50 years the entire premium is treated as a capital receipt and so does not form part of the business's income. For leases of up to 50 years the premium is treated as partly capital and partly rent; only the rent is taxable.

Use the Working Sheet below to arrive at the taxable amount.

Working sheet for chargeable premiums – leases up to 50 years

Premium	A	£
Number of **complete periods of 12 months** in the lease *(ignore the first 12 months of the lease)*	B	
50 *minus* box B	C	
Box C *divided* by 50	D	
Box A *multiplied* by box D	E	£

Copy figure in box E to box 3.22

Trustees are chargeable at the trust rate (50%) on the full amount of any premium which is treated as rent even if they are not normally liable at that rate. However, the amount chargeable at the trust rate cannot exceed the total profit from rental income (the amount in box 3.42). So, where trustees are not normally liable at the trust rate and the total profit in box 3.42 is higher than the premium shown in box 3.22, the amount in box 3.22 is chargeable at 50% and the difference between that amount and the amount in box 3.42 is chargeable at basic rate (20%). If the total profit in box 3.42 is lower than the amount in box 3.22, all of box 3.42 is chargeable at 50%. If there is an overall loss so that box 3.42 is nil, no part of the premium is liable at 50%.

If you are in doubt whether any payment received constitutes a premium, ask us or your tax adviser. There can be a premium charge where you have assigned a lease but not required the payment of a premium. If you have assigned a lease and are not sure of all the consequences of that assignment, ask us or your tax adviser for advice.

• Reverse premiums

box 3.22A If the trust or estate receives a payment or other benefit as an inducement to take an interest in property for letting, that receipt will be chargeable as income from property. If such a receipt is for premises from which the trust or estate is to trade, see the note for box 1.91 on page 7 of the *Notes on Trust and Estate Trade*.

If you are in any doubt about the proper tax treatment of a reverse premium, ask us or your tax adviser.

Expenses

If the total property income in the year, including furnished holiday letting income, before expenses is less than £15,000 annually, you do not have to list expenses separately. Instead, enter total expenses in box 3.29.

The following guidelines give an indication of the main types of expenses that are likely to arise in a rental business and what usually can or cannot be claimed as a deduction.

Non-allowable expenses:
- a trustee's or personal representative's personal expenses (see the notes about box 3.32 on page TLN7)
- capital costs, such as expenses relating to the purchase of the land or property it intends to let, or the cost of purchasing machinery, furnishings or furniture
- any loss made on the sale of a property.

Allowable expenses:
- in general any costs incurred for the sole purpose of earning business profits
- you may be able to claim capital allowances or a renewals deduction on the cost of buying a capital asset, or a wear and tear allowance for furnished lettings
- expenditure incurred on the provision of plant or machinery for use in a dwelling house is not qualifying expenditure for an ordinary property business or an overseas property business. See Helpsheet 252 *Capital allowances and balancing charges*.

The expenses must be allocated to the correct return period and it may be necessary to apportion certain expenses to arrive at the correct amount.

Make sure you do not enter in boxes 3.24 to 3.29 any expenses you have already included in boxes 3.2 to 3.7.

• Rent, rates, insurance, ground rents, etc.

box 3.24 Any rent paid under a lease of a property that is let to someone else can be deducted in working out the trust's or estate's profits.

Other expenses connected with the property such as business rates, Council Tax, water rates, or ground rents are also allowable. Enter in box 3.24 the total of any such expenses incurred in the period for all properties in the business.

Enter in box 3.24 any expenses the trust or estate must incur as landlord to insure any let property and its contents.

Insurance against loss of rents is also an allowable cost but you must include in box 3.20 any income received as a result of taking out such an insurance. Insurances that extend beyond the trust's or estate's rental business, such as a trustee's or personal representative's personal policies or those insuring private belongings, are not allowable costs.

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• Repairs, maintenance and renewals

box 3.25

Repairs and maintenance

Expenses that prevent the property from deteriorating can be deducted as a repair. Examples include exterior and interior painting, stone cleaning, damp treatment, roof repairs, furniture repairs and repairs to lifts and other machines that form part of the property.

You cannot deduct the cost of expenditure incurred on improvements, additions and alterations to the property. Nor can you claim a deduction for the cost of notional repairs that are no longer required as a result of this capital expenditure.

If you are in doubt about whether any work on the property is a repair or maintenance, ask us or your tax adviser.

Renewals

The trust or estate can claim as an expense the cost of replacing furniture, furnishings and machinery supplied with the property where capital allowances or 'wear and tear' allowance (see page TLN7 of these notes) are not claimed. It includes the renewal of small items such as knives and forks. If the trust or estate opts for a renewals deduction, you may deduct the cost of replacing any such equipment but not the cost of the original purchase. Deduct from the replacement cost any sum received for the item scrapped or sold. Also deduct any part of the replacement cost that represents an improvement or addition to the original item.

Enter in box 3.25 the total of any such expenses on renewals (and repairs and maintenance) incurred in the period for all the properties in the business. If you are in doubt about what sum to claim as a renewal, ask us or your tax adviser.

• Finance charges, including interest

box 3.26 Include in box 3.26 expenses that relate to the financial side of the rental business. Costs incurred in obtaining a loan or an alternative finance arrangement to buy a property that is let are allowable as a deduction. So is any interest incurred on the loan or alternative finance payments under an alternative finance arrangement. An alternative finance payment is the charge made by your finance provider over and above the original cost of the asset in the alternative finance arrangement. If you are unsure whether any financial cost is allowable as a deduction, ask us or your tax adviser.

box 3.27 are some examples of expenses the trust or estate cannot deduct and those it may.

Non-allowable expenses:
- expenses in connection with the first letting or subletting of a property for **more than one year**. These include, for example, legal expenses (such as the cost of drawing up the lease), agents' and surveyors' fees and commission
- any proportion of the legal, etc. costs that relates to the payment of a premium on the renewal of a lease
- fees incurred in getting planning permission, or on the registration of title when buying a property.

Allowable expenses:
- expenses for the let of a **year or less**
- management fees relating to the ongoing costs of letting (for example, rent collection, etc.)
- the normal legal and professional fees incurred on the renewal of a lease, if the lease is for less than 50 years
- professional fees incurred evicting an unsatisfactory tenant, with a view to reletting, or those on an appeal against a compulsory purchase order
- professional fees in drawing up accounts.

If you are unsure whether any legal or professional fee is allowable as a deduction, ask us or your tax adviser.

• Costs of services provided, including wages

box 3.28 If, in addition to letting a property, the trust or estate provides any service to the tenant (such as gardening, porterage, cleaning or even something like communal hot water) that requires a degree of maintenance and thus expense, you can claim the cost of these services where they are provided wholly and exclusively for the purposes of the letting.

You should include in box 3.28 the total of any expenses for all properties and their associated services. If the trust or estate receives any income for any service provided, you should include this in box 3.20.

• Other expenses

box 3.29 Enter in box 3.29 all expenses incurred wholly and exclusively for the purposes of the rental business that are not already included in boxes 3.24 to 3.28. Examples include the costs of rent collection, advertising for tenants, travelling solely for business purposes, stationery, phone calls and other miscellaneous expenses.

Remember though that a trustee's or personal representative's personal expenses are **not** allowable. If the trust or estate spends money on something used only partly for the property, you must enter only the amount expended for business purposes in box 3.29. Alternatively, enter the whole amount and deduct in box 3.32 the proportion of the cost that represents personal use.

Lease premium relief

Where the trust or estate (or an earlier tenant) paid a premium to the landlord when the lease was granted, and the trust or estate is subletting the property in the property business, it may be able to claim a deduction for part of the premium paid. The relief for premiums paid is only due on amounts which are chargeable on the landlord as income (or would be if the landlord were liable to tax). If you think the trust or estate is entitled to a deduction for a premium paid, ask us or your tax adviser. You should enter the amount of the allowable deduction in box 3.29. The notes for box 3.22 on page TLN5 explain how to calculate the part of the premium which is taxable on the landlord as income.

■ *Tax adjustments*

To arrive at the trust's or estate's taxable income (or the loss allowable for tax purposes) you need to make certain adjustments to the net profit or loss arising in the year in box 3.31. The main adjustments are listed on page TLN7.

- Private use

box 3.32 Private and personal expenses are not allowable. If the trust or estate spends money on something used only partly for the rental business and partly for a non-business reason you must either:

- enter the amount expended for business purposes in boxes 3.24 to 3.29, **or**
- enter the whole expenses in those boxes and deduct in box 3.32 the proportion of the cost that represents the personal use or the non-business element.

For example, if the trust or estate lets a property for only eight months in a year and a trustee or personal representative uses it for the other four months, you can put the full annual cost of insuring the property in box 3.24. If you do, you should add back one third of that cost in box 3.32.

If you are in any doubt about whether a particular expense needs to be apportioned between business and private use, ask us or your tax adviser.

- Capital allowances and balancing charges

boxes 3.33 and 3.35 In working out the rental business profits you must not deduct:

- the cost of buying, altering, building, installing or improving fixed assets, **or**
- depreciation or any losses that arise when you sell them.

Instead, the trust or estate may be able to claim **capital allowances** in box 3.35. These **reduce** a profit or **increase** a loss. An adjustment, known as a **balancing charge**, may arise when the trust or estate sells an item, gives it away or stops using it in the business. Enter the amount of **balancing charges** in box 3.33. These **increase** a profit or **reduce** a loss.

Include any capital allowances or balancing charges from any trust or estate investments in property.

If the trust or estate lets a dwelling house in the UK (other than as furnished holiday accommodation), capital allowances are not available on any machines, furniture or furnishings supplied. However, see the notes on box 3.36 (10% wear and tear) aside.

Your tax adviser, if you have one, will be able to tell you how to calculate capital allowances and balancing charges.

Fixtures

From April 2012, if the trust or estate sells a business property in which it has carried on a trade, or if it buys a second-hand business property containing fixtures (such as kitchen fittings, electrical or heating systems), it must agree the part of the purchase price to be attributed to those fixtures with the other party to the sale. Normally, agreement will be fixed by means of a joint election (called a 'section 198' or 'section 199' election), which must be notified to HMRC within two years of the property transaction.

The amount the seller can bring in to any pool as the disposal value, will be the same amount as the amount the buyer can bring in as the acquisition value for capital allowances purposes.

It is likely to be very much easier to agree the part of the purchase price to be attributed to the fixtures as part of the actual sale/purchase negotiations, when both sides have maximum negotiating power. If, exceptionally, the parties are unable to reach an agreement, then either party can refer the matter to a First Tier Tribunal, within two years, to secure an independent determination.

If one of the specified ways of determining the value of the fixtures has not been used, then the buyer will be unable to claim allowances on this expenditure.

If the trust or estate is contemplating buying, selling or leasing a business property containing fixtures, it may wish to consider contacting its tax adviser.

If you do not have a tax adviser, or want to check your calculation, you can find more information in Helpsheet 252 *Capital allowances and balancing charges* or ask the Self Assessment Orderline for a copy on **0845 9000 404**.

For information on Business Premises Renovation Allowance read the notes for boxes 21.9 and 21.10 in your Trust and Estate Tax Return Guide.

box 3.35B Tick box 3.35B if box 3.35 includes enhanced capital allowances for spending on designated environmentally beneficial technologies. See Helpsheet 252 *Capital allowances and balancing charges*.

- Landlord's Energy Saving Allowance

box 3.35C Enter in box 3.35C the amount you are claiming for installing:

- loft, floor, cavity wall or solid wall insulation
- draught proofing and insulation for hot water systems

in residential property which the trust or estate lets. You cannot claim the allowance for any property which is used for furnished holiday lettings. The maximum amount you can claim for the total expenditure on these items is £1,500 for each let property.

If the trust or estate owns the property with other persons (or the trust or estate and other persons have different interests or rights in the same property), you should only claim for the trust's or estate's share of the expenditure which has been incurred for the let residential property (or for its share of the £1,500 maximum which relates to the let residential property).

- 10% wear and tear

box 3.36 If the trust or estate lets any **furnished** residential accommodation (such as a house or flat) in the UK (other than as furnished holiday accommodation), capital allowances are not available. See Helpsheet 252 *Capital allowances and balancing charges*.

Instead, it may:

- claim a deduction for the net cost of replacing a particular item of furniture or furnishings, but not the cost of the original purchase (see the notes on page TLN6 about renewals), **or**
- elect for an allowance amounting to 10% of the rent received after deducting charges or services that would usually be borne by a tenant but which are, in fact, borne by the trust or estate (for example, Council Tax). This allowance, which is known as wear and tear allowance, is accepted as broadly covering the cost of normal renewals of furniture. An election is made by making an entry in box 3.36.

The trust or estate can claim capital allowances if it lets furnished, but not residential, accommodation. If capital allowances can be claimed, you cannot elect for the 10% wear and tear allowance.

continued over

Losses

The following guidance deals with the more common types of loss relief and assumes that the trust or estate does not own an agricultural estate. If it does own an agricultural estate, you can find more information in Helpsheet 251 *Agricultural land* or ask the Self Assessment Orderline for a copy on **0845 9000 404**.

In general, any rental business loss made is available to be carried forward and set against future rental business profits. Read the notes on box 3.44 aside. However, you can get sideways relief against general income for that part of a loss made up of capital allowances.

Adjusted loss

box 3.40 Work out the loss following the note on the box and enter it in box 3.40. If you have UK FHL profits, you can set the loss off against that profit. Include the loss in the figure at box 3.14 but make sure that the total in that box does not exceed the FHL profit. Reduce the figure in box 3.44 by the same amount.

Loss brought forward from previous year

box 3.41 Enter the total loss brought forward from the year ended 5 April 2012 relating to all properties in your property business, excluding FHL properties. Exclude from this figure any losses brought forward from 2011–12 that you are now setting against total income in 2012–13. Include them in box 3.43 and read the note for box 3.43 below.

The total loss brought forward is the loss entered in box 3.44 of the *Trust and Estate UK Property* pages for the year ended 5 April 2012.

box 3.42 If you entered a figure of profit in box 3.39, you should deduct any figure in box 3.41 to arrive at the total taxable profit for the year. If any losses brought forward in box 3.41 are greater than the profits in box 3.39, enter '0' in box 3.42 and put the balance of the losses, after subtracting the profits, in box 3.44.

However, if you have UK FHL profits, you can set the remaining loss off against that profit. Include it in the figure at box 3.14 but make sure that the total in that box does not exceed the FHL profit. Reduce the figure in box 3.44 by the same amount.

If the losses brought forward do not exceed the profits, subtract the figure in box 3.41 from the figure in box 3.39, and enter the result in box 3.42.

Loss offset against total income

box 3.43 You can only claim to have the loss from the rental business set off against the trust's or estate's total income if:
- the rental business includes land used for agricultural purposes, the loss is due to certain agricultural expenses (read Helpsheet 251 *Agricultural land* or ask the Self Assessment Orderline for a copy on **0845 9000 404**, **or**
- the loss arises as a result of certain claims to capital allowances.

If you have not claimed capital allowances this year, and there were rental business profits last year, you should ignore box 3.43 and go on to box 3.44.

If you have claimed capital allowances, sideways relief (against other income for 2012–13) is limited to whichever is the lowest of the following three figures:
- the amount of capital allowances in box 3.35 after deduction of any balancing charges in box 3.33, **or**
- the amount of the loss in box 3.40, **or**
- the amount of other income.

So, if capital allowances do not exceed the balancing charges entered in box 3.33, no sideways relief is available even though a loss was made in box 3.40.

But, for example, if there are capital allowances of £3,000 and a balancing charge of £1,000, you can claim sideways relief up to £2,000, depending on the amount of loss made (in box 3.40) and the total general income against which it can be set.

If you want to set the loss against other income of the same year, that is, the year ended 5 April 2013, enter the amount of the relief in box 3.43 together with any loss brought forward from last year (see the notes for box 3.41).

You can deduct the loss entered in box 3.40 from total income for the year ended 5 April 2014 if it derives from an excess of capital allowances over balancing charges and that excess has not already been used against 2012–13 income as detailed above. **Remember to include the loss in the 2013–14 Trust and Estate Tax Return**.

Loss to carry forward to following year

box 3.44 You can carry forward any unused losses and set them against future profits from the same rental business. To arrive at the total remaining losses to carry forward to the year ended 5 April 2014:
- **if a profit was made in box 3.39 and there are unused losses brought forward from an earlier year,** enter in box 3.44 the balance of losses after subtracting the profits in box 3.39
- **if a loss was made in box 3.40,** subtract from this figure any part of the loss used against general income in box 3.43, and add the result to the figure of earlier losses brought forward in box 3.41. Enter the total in box 3.44.

Remember to reduce the figure in box 3.44 by any losses set against FHL profits at box 3.14.

Property let jointly

box 3.45 Tick box 3.45 if you have included in box 3.1, or box 3.20, any income from joint holiday lettings or from any other property let jointly (see the notes on pages TLN2 and TLN4).

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 ***hmrc.gov.uk/selfassessmentforms***