



PROPERTY INCOME AND INVESTMENTS – INDIVIDUALS

Accounts should be drawn up using the accruals basis. Any expenses payable for the same period can be deducted. Capital expenditure is not allowable.

Calculate the Property Income for 2014/15.

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Property Income and Investments – Individuals

1.2 Allowable deductions

- (a) To be allowable expenses must have been incurred wholly and exclusively in connection with the business for example
 - » insurance
 - » agents' fees
 - » other management expenses, for example cleaning expenses
 - » repairs
 - » interest on a loan to purchase the property
- (b) Capital expenditure is not allowable.
 - » Repairs are allowable revenue expenses.
 - » Improvements are capital and therefore disallowed
- (c) Capital allowances may be claimed for expenditure on plant and machinery used for the maintenance of the property
- (d) If the lettings are furnished, tax relief is usually given for the furniture and furnishings by a 10% wear and tear allowance, calculated as:
$$10\% \times \text{rental income}$$
or, if the landlord pays council tax, water rates or business rates on the property:
$$10\% \times (\text{rental income less council tax / business rates and water rates})$$
- (e) Relief is available for revenue expenditure incurred before letting commenced, under the pre-trading expenditure rules. ie expenditure incurred up to 7 years prior to renting is treated as being incurred on day one of the letting business

EXAMPLE 2

Sid owns a furnished property that is let out at an annual rent of £3,600, payable monthly in advance. During the year 2014/15 he incurred the following expenditure:

May 2014	Construction of a garage, replacing the car port	£2,000
June 2014	Insurance for year from 1 July 2014 (insurance for the previous year to 30 June was £420)	£480
November 2014	Drain clearance	£380
May 2015	Redecoration (work completed in March 2015)	£750

The tenant vacated the property during June 2014 without having paid the rent due for June. Sid was unable to trace the defaulting tenant, but managed to let the property to new tenants from 1 July 2014.

Calculate the Property Income for 2014/15 assuming that Sid claims the 10% wear and tear allowance.

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Calculate Barbara's Property Income and state the due date for any relevant election.

[illegible]

5 Lease premiums on grant of short lease (50 years or less)

5.1 Introduction

- (a) When a tenant takes on a new lease he may be required to pay a one-off premium in addition to the annual rent. If the lease is for less than 50 years, part of the premium is assessed on the landlord as property income, the remainder is treated as a capital receipt.

The treatment of the capital receipt is outside the syllabus

- (b)** The amount of the premium assessed as Property Income is:

$$P \times \frac{51 - n}{50}$$

Where: P = total premium

n = duration of lease in years

EXAMPLE 4

Bill grants Richard a lease to a shop on 30 June 2014

Annual rent £5,000 due on 1 July 2014

Term 20 years

Premium	£60,000
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Calculate the Property Income assessment for Bill in 2014/15

5.2 Trading Profit deduction for traders

$$= \frac{\text{Property Income assessment on landlord}}{\text{Life of lease}} \text{ p.a.}$$

Using example 4 above, show the relief available to Richard for the premium paid.

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The annual subscription limit is £15,000 per tax year and NISAs now permit the taxpayer complete flexibility over the mix of investments in either cash or stocks and shares. This limit will be provided in the tax rates and allowances section of the exam paper.

The nature of the investments are historically risk free.

You should now review the New ISA section of the Finance Act 2014 technical article written by the F6 examining team and then attempt Practice Questions 1 to 9

