December 2015 Examinations Paper F6 19





# PROPERTY INCOME AND INVESTMENTS – INDIVIDUALS

### 1 Income liable

The following income is liable to assessment under Property Income:

- (a) rents under any lease or tenancy agreement
- **(b)** premium received on the grant of a short lease

#### 1.1 Basis of assessment

Income from land and buildings is computed as if the letting of the property were a business, and the amount assessable under property income will be the rental business profits for the individual in the tax year.

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

## EXAMPLE 1

Jim bought a property and rented it out for the first time on 1 July 2014. The rent of £6,000 per annum is paid alternatively (1) quarterly in advance (2) quarterly in arrears, or (3) annually in advance.

He paid allowable expenses of £300 in November 2014 for redecoration and £500 in May 2015 for repairs completed in March 2015.

Calculate the Property Income for 2014/15.

#### 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% × rental income

or, if the landlord pays council tax, water rates or business rates on the property:

 $10\% \times$  (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.				

# 2 Property losses

If total expenses exceed total rental income, the property income assessment is **nil** and the excess property loss is carried forward and offset against future property income only.

# 3 Furnished holiday lettings

There are special rules for furnished holiday lettings.

The letting is treated as if it were a trade. This means that, although the income is taxed as income from a UK property business some of, the provisions which apply to actual trades also apply to furnished holiday lettings as follows:

- (a) Capital allowances (see chapter 5) are available on furniture instead of the wear and tear allowance
- **(b)** Income qualifies as earnings for pension relief (see chapter 10)
- (c) Capital gains tax rollover relief, gift relief and entrepreneurs' relief are all available.

The profit or loss is computed for tax years on an accruals basis. Losses may only be carried forward against future profits from furnished holiday lettings

The lettings must be of UK or European Economic Area furnished accommodation made on a commercial basis with a view to the realisation of profit. In addition the following conditions must also be satisfied:

- (d) The accommodation must be available to let for at least 210 days in the tax year.
- (e) The accommodation must actually be let for at least 105 days in the year
- (f) No one person occupies the property for more than 31 consecutive days. If one or more persons does occupy the property for more than 31 consecutive days then these periods of long letting must not exceed 155 days in the year

## 4 Rent a Room relief

If an individual lets a room or rooms, furnished, in his or her main residence as living accommodation then gross rents up to £4,250 p.a. are exempt.

The exemption may be ignored if the tax payer wants to generate a loss where expenses exceed income, or where actual expenses exceed £4,250.

If gross rent exceed £4,250 p.a. the tax payer may choose to assess as follows:

(a) Ordinary calculation

Gross rent	Χ
Less: expenses	(X)
Wear & tear allowance	(X)
Property Income	Χ

**(b)** Alternative calculation (election)

Gross rent	Χ
Less: rent a room relief	(4,250)
Property Income	Χ

The election must be made for 2014/15 by 31 January 2017 and stays in force until it is revoked.

Fχ					
- v	/ A	N A	וח	-	

Barbara rents a room in her main residence. Gross rents are £85 per week and expenses amount to £120 per year		
Calculate Barbara's Property Income and state the due date for any relevant election.		

	perty	inations and Investments – Individuals	Paper F Chapter	
5	Lea	se prem	niums on grant of short lease (50 years or less)	
5.1	Intro (a)	lease is for as a capita	enant takes on a new lease he may be required to pay a one-off premium in addition to the an r less than 50 years, part of the premium is assessed on the landlord as property income, the remain all receipt. nent of the capital receipt is outside the syllabus	
	(b)		Int of the premium assessed as Property Income is:	
	()			
		P×5	50	
		Where:	P = total premium	
			n = duration of lease in years	
Annu			e to a shop on 30 June 2014 on 1 July 2014 20 years	
Annua Term Premi	al rent um	£5,000 due c	on 1 July 2014	
Annua Term Premi	al rent um	£5,000 due c	on 1 July 2014 20 years £60,000	
Annua Term Premi	al rent um	£5,000 due c	on 1 July 2014 20 years £60,000	
Annua Term Premi	al rent um	£5,000 due c	on 1 July 2014 20 years £60,000	
Annua Term Premi	al rent um	£5,000 due c	on 1 July 2014 20 years £60,000	
Annua Term Premi	al rent um	£5,000 due c	on 1 July 2014 20 years £60,000	
Annua Term Premi	al rent um	£5,000 due c	on 1 July 2014 20 years £60,000	
Annua Term Premi	al rent um	£5,000 due c	on 1 July 2014 20 years £60,000	
Annua Term Premi	al rent um	£5,000 due c	on 1 July 2014 20 years £60,000	
Annua Term Premi	al rent um	£5,000 due c	on 1 July 2014 20 years £60,000	
Annua Term Premi	al rent um	£5,000 due c	on 1 July 2014 20 years £60,000	
Annua Term Premi	al rent um	£5,000 due c	on 1 July 2014 20 years £60,000	
Annua Term Premi	al rent um	£5,000 due c	on 1 July 2014 20 years £60,000	
Annua Term Premi	al rent um	£5,000 due c	on 1 July 2014 20 years £60,000	
Annua Term Premi	al rent um	£5,000 due c	on 1 July 2014 20 years £60,000	

## 5.2 Trading Profit deduction for traders

Where a trader has paid a premium for a short lease he may deduct the following annual amount against his Trading profit in each
of the year's of the lease in which the property is used in the trade. This is in addition to any rent paid:

	Property Income assessment on landlord				
=	Life of lease	p.a.			

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

# 6 New Individual Savings Accounts (NISA's)

- 6.1 Individual Savings Accounts (ISA's) have for many years been the most common form of tax efficient investment. NISA's have now replaced and simplified the ISA system by introducing just one overall annual investment limit for the NISA and only this new system is now examinable at F6. The main advantages of NISAs are:
  - (a) Income is free of income tax
  - **(b)** Disposals of investments within an ISA are free from capital gains tax
  - (c) No minimum holding period withdrawals can be made at any time

#### 6.2 Components of an ISA

- (a) Cash for example in a bank account
- **(b)** Stocks and shares listed anywhere in the world

## 6.3 Subscription limits

The annual subscription limit is £15,000 per tax year and NISA's 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.

# 7 National savings

These offer a variety of products some of which are tax free, namely:

National Savings Certificates

However, some National Savings & Investments (NS&I) products are taxable, namely:

- NS&I Easy Access account / NS&I Direct Saver Account
- NS&I Investments accounts

The income is received gross without deduction of tax at source.

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

Paper F6

Chapter 3