Tax Rules Every Landlord Should Know

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Being a landlord in the UK can be rewarding – the steady rental income, long-term capital growth, even the sense of security that comes with owning bricks and mortar. But there's a side to it that's often overlooked until it's too late: tax.

Landlord tax in the UK isn't just one rule or one rate. It's a web – a tangle of income tax, capital gains, stamp duty, and allowable expenses. And every decision you make (how you buy, who you rent to, even how long you hold the property) can change the numbers dramatically.

This guide breaks it all down – in plain English, without the jargon – so you can understand what HMRC expects, what you can claim, and where landlords often trip up.

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1. Rental income tax: what HMRC counts as "income"

Let's start with the basics.

If you rent out a property, the money you earn is classed as **rental income** and must be declared on your **Self Assessment tax return**.

That income isn't just the monthly rent, either. It includes:

- Any fees you charge tenants (e.g. cleaning or furniture hire)
- Rent paid in advance
- Non-refundable deposits
- Any bills you cover and then pass back to the tenant

In other words, HMRC wants the *gross* amount before you deduct costs. Then, from that total, you can claim certain **allowable expenses** to reduce your tax bill – more on that in a moment.

For most individual landlords, the taxable rental income is added to your other income (such as salary or dividends) and taxed at the usual income tax bands:

Income band	Tax rate
Basic rate (up to £50,270)	20%
Higher rate (£50,271–£125,140)	40%
Additional rate (over £125,140)	45%

If you're a basic rate taxpayer, that might not sound too bad. But the moment your rental income pushes you into the next band, the tax jumps sharply – and that's where planning ahead can make a huge difference.

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2. Mortgage interest relief: what changed and why it matters

Once upon a time, landlords could deduct their full mortgage interest from rental income before tax. It was straightforward and generous.

Not anymore.

Since April 2020, the **mortgage interest tax relief** system changed – and the shift hit many landlords hard.

Now, instead of deducting the interest before calculating your taxable profit, you receive a **20% tax credit** on the interest you pay.

That means if you're a higher-rate taxpayer (40%), you'll no longer get full relief at that rate – only 20%. The difference can be thousands a year.

Let's make that real.

Say your rental income is £15,000 a year, and your mortgage interest is £5,000.

- **Before 2020:** You'd pay tax on £10,000 (after deducting £5,000).
- **Now:** You pay tax on the full £15,000 – then claim a 20% credit (£1,000) on the £5,000 interest.

So you still get *something*, but less.

This is one reason some landlords now use limited companies – corporate structures are taxed differently. But for typical private landlords, you're stuck with the new system.

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3. Allowable expenses: what you can (and can't) claim

This is where many landlords either miss out or push their luck.

You can deduct certain running costs from your rental income before working out your taxable profit. These are known as **allowable expenses** – things "wholly and exclusively" for renting out the property.

Common examples include:

- Letting agent fees
- Accountant fees
- Buildings and landlord insurance
- Repairs and maintenance (but not improvements)
- Council tax, gas, and electricity (if you pay them for the tenant)
- Cleaning and gardening costs
- Replacement of domestic items (e.g. furniture, appliances)

But – and it's a big but – **you can't claim for improvements**.

That new kitchen that adds value to your property? Not an expense, says HMRC. That falls under **capital expenditure**, which you can only claim when you sell (as part of your capital gains calculation).

Here's a quick cheat sheet:

Cost type	Claimable as expense?	Notes
Repainting walls	□ Yes	Routine maintenance
Installing new boiler	□ Yes	Replacement, not upgrade
New kitchen extension	□ No	Capital improvement
New furniture	□ Yes	Under "replacement of domestic items" relief

If in doubt, ask yourself: does it restore what was there, or improve it? If it's the latter, you'll probably have to wait until you sell to get any tax benefit.

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4. The personal allowance and property allowance

Good news – not every landlord pays tax on every pound earned.

Everyone gets a **personal allowance** (currently £12,570), covering all income sources. And if your total rental income is small – say you rent out your old flat or part of your home – you may also qualify for the **property allowance**.

This lets you earn up to **£1,000** in rental income each year *tax-free*, without having to register for Self Assessment.

You can't use both at once, but for casual landlords, it's an easy win.

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5. Stamp Duty Land Tax (SDLT): the extra 3%

If you buy a property to let, expect to pay **Stamp Duty Land Tax** (SDLT) – and as a landlord, you'll pay more than a standard buyer.

Since 2016, there's been a **3% surcharge** on top of the normal residential rates for second homes and buy-to-lets.

Here's a simplified version:

Property price	Standard SDLT	Buy-to-let SDLT (with 3% surcharge)
Up to £250,000	0%	3%
£250,001–£925,000	5%	8%
£925,001–£1.5m	10%	13%

It's a painful hit – especially for landlords building a small portfolio.

But don't forget, SDLT is only paid once at purchase. What hurts more, for many, is how it eats into early yields and cash flow.

You can use a **stamp duty calculator** to estimate it before committing – and you should, because it can easily change whether a property is worth buying.

For a full guide on how mortgage deals and purchase costs interact, you can read more on our buy-to-let mortgages page.

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6. Capital Gains Tax when you sell

When you eventually sell your rental property, the tax story doesn't end – it changes.

If you make a profit (the sale price minus the purchase price and any allowable costs), you'll usually pay **Capital Gains Tax (CGT)**.

You get an **annual CGT allowance** – currently £3,000 – but that doesn't stretch far in property.

The rate you pay depends on your income tax band:

Taxpayer type	CGT rate on residential property
Basic rate	18%
Higher / Additional rate	24%

Yes, those rates are lower than income tax – but remember, the gain is often large. And unlike shares or ISAs, property gains can't be sheltered easily.

You can deduct certain **capital costs** (solicitor fees, estate agent fees, and improvements like extensions or loft conversions) to reduce your gain.

And note – you must now report and pay any CGT due **within 60 days** of the sale completing. Miss that deadline and HMRC can fine you.

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7. Depreciation, wear and tear, and domestic items relief

Before 2016, landlords could claim a flat 10% "wear and tear" allowance on furnished properties – easy and generous.

Now, that's gone.

You can only claim the actual cost of **replacing** domestic items – beds, fridges, sofas, carpets, curtains – under the "replacement of domestic items relief."

It doesn't apply to initial purchases (furnishing a property for the first time), only replacements. Keep receipts. HMRC will ask.

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8. Reporting, record-keeping, and the move to digital

If you earn more than £10,000 from property, you must complete a **Self Assessment tax return**.

Soon, though, everything changes again.

HMRC's **Making Tax Digital (MTD)** programme will eventually require landlords to keep digital records and submit quarterly updates through approved software – not just one annual return.

It's being phased in, but expect it to be compulsory in the coming years for landlords with significant rental income.

In short: start keeping digital records now. You'll thank yourself later.

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9. What about joint ownership and partnerships?

If you own a property jointly – say, with your spouse – the rental income is usually split **50/50** for tax purposes.

But you can alter that split by completing a **Form 17** with HMRC if ownership shares differ (e.g. 80/20).

This can be useful for tax planning, especially if one partner pays a lower rate of tax.

However, don’t over-engineer it – the ownership structure must reflect reality. HMRC dislikes creative accounting.

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10. The Rent-a-Room Scheme: a rare bit of generosity

If you rent out a **furnished room** in your main home, you might qualify for the **Rent-a-Room Scheme**, which allows you to earn up to **£7,500 tax-free** each year.

That’s per property, not per person, and it’s designed for live-in landlords.

So if you’re renting your spare room to a lodger or student, it’s an easy way to earn without the admin headache of Self Assessment.

You can opt in automatically – no need to apply – as long as your income stays below the threshold.

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11. Council tax, energy bills, and who pays what

This isn’t strictly “tax,” but it matters.

If your property is rented on a single tenancy (the whole flat or house), the **tenant** usually pays council tax and utilities.

But if you rent by the room or run a **House in Multiple Occupation (HMO)**, those bills often fall on you, the landlord.

The reason this matters is simple: it affects your net income. So when calculating your taxable profit, always work from gross rent *minus* genuine outgoings you’ve covered.

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12. Common pitfalls landlords make

A few things catch people out again and again:

- Forgetting to declare small rental income from a room or inherited property.
- Mixing personal and business costs – for example, claiming for your own home repairs.
- Ignoring mortgage interest restrictions.
- Missing the 60-day CGT reporting deadline.
- Not keeping receipts for expenses.

HMRC can go back up to **20 years** for undeclared income if they suspect deliberate evasion – so it's worth keeping your paperwork straight.

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13. Should you hire an accountant?

For a single property, it's tempting to DIY.

But once you start juggling multiple mortgages, allowable expenses, and rate changes, a specialist property accountant can often save more than they cost.

They'll know the quirks – like when to claim mileage, how to offset losses, and how to handle partially-let periods.

And they'll keep you on the right side of HMRC, which is never a bad place to be.

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14. A final thought

Landlord tax isn't about loopholes or clever dodges. It's about understanding the system well enough to stay compliant – and still make it work in your favour.

The rules shift, rates change, and what's allowed today may not be tomorrow. But if you keep clear records, plan ahead, and know what you can claim, you'll be fine.

And remember – the goal isn't to pay *no* tax. It's to pay the *right* amount, no more, no less.

Note: The information in this guide was correct at the time of publication but is subject to change.