



Landlord Guide to Letting Your Property

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Landlord Guide Overview

This guide is designed to help you as landlord understand the various responsibilities that come with the decision to let out residential property.

Leasehold Property

If your property is leasehold, as opposed to freehold, then you effectively have the right to occupy a portion of a building for the given duration of the lease, for example 65, 99 or 999 years. This form of ownership typically applies to buildings that comprise more than one unit, such as blocks of flats, though there are increasingly more freehold flats and apartments. If you are a leaseholder you should check the terms of your lease documentation and obtain the necessary written consent from the Freeholder or the Management Company for the building before letting your property.

Mortgage

If your property is mortgaged or you have a loan secured on the property then you must obtain written consent from your lender prior to the tenancy commencing. Your lender may also require additional clauses in the tenancy agreement of which you must inform us and they will often charge a fee for giving their consent for the letting to take place.

As regard to mortgage payments, we recommend that these are always paid directly by you via standing order.

Council Tax

Every property in the UK has a yearly council tax rate that is calculated from a formula based upon the value of the property, the number of occupants and the financial status of those occupants. It is the responsibility of the tenant or tenants to pay council tax due on a property. There are exemptions and reductions available to single occupants and students upon application to the local council.

Utilities

It is standard in most tenancy agreements to stipulate that it is the responsibility of the tenant to arrange and pay for utility services such as gas, electricity, water, telephone and television license.

As your agent we can arrange for the transfer of utility accounts to the tenant and between tenants if your property is let again. Meter readings will be taken at the start and end of each tenancy allowing for closing gas and electricity accounts to be drawn up. We will handle all these matters for you, but telecommunication providers will usually require instructions direct from both the landlord and tenant.

As landlord you are also responsible for all standing charges whilst the property is not subject to a tenancy agreement. i.e. when the property is vacant.

Building and Structural Condition

A well-maintained property in good decorative order will help towards a smooth-running tenancy. This will also have a positive impact in the form of a potentially higher rental figure. Moreover, we have found that tenants are more inclined to treat a nicely presented property with greater respect.

As landlord you are legally responsible to keep in repair the structure and exterior of the property and keep in repair and proper working order the installations in the property for the supply of water, gas, electricity, sanitation and for space and water heating. Repairs and maintenance are at the landlord's expense unless misuse can be established. Also, interior decorations should be in good clean condition and preferably plain, light and neutral in presentation.

Furnished or unfurnished

The majority of properties on the letting market are 'unfurnished'. A good working definition of this term is that it will usually include carpeting or flooring, curtains / blinds and a cooker. A 'partly furnished' property will usually contain the usual 'white good' kitchen appliances such as washing machine and fridge.

We recommend that you leave only minimum furnishings and that these should be of reasonable quality. Any items to be left should be in the property during viewings. Personal possessions such as ornaments, pictures and books should definitely be removed from the premises, especially those of financial or sentimental value. Some items may be boxed, sealed and stored in the loft at the owner's risk. All cupboards and shelf space should be left clear for the tenant's own use.

Gardens

Gardens should be left neat, tidy and rubbish free, with any lawns cut. Tenants are required to maintain the gardens to a reasonable standard, provided they are left the necessary tools. However, if you have very high standards for your garden or if it is particularly large then you may wish for us to arrange visits by a regular gardener.

Cleaning

At the commencement of the tenancy the property must be in a thoroughly clean condition and at the end of each tenancy it is the responsibility of the tenant to leave the property in a similar condition. Where they fail to do so, cleaning will be arranged at the tenant's expense.

Information for the tenant

It is helpful to the tenant if you leave a 'useful information' folder at the property containing manuals and documentation for operating the central heating and hot water system, washing machine and any alarm system. It is also good to include details of when the refuse is collected.

Provision of keys

You should provide one set of keys for each tenant. Where we are managing your property we will arrange to have duplicates cut as required, we will also require a set.

1.0 Service: Full Management or Let Only

There are two options, a fully managed service where you can sit back and relax while someone else takes care of everything for you or the let only service where you take charge once the tenants are in place.

Here is a quick overview of what you can expect from each service;

Full Management Service

Humberstones Homes will produce full colour brochure with photographs and room sizes which are then marketed through our extensive range of websites and newspaper adverts to find the right tenants for the property.

Once suitable applicants are found a holding deposit is taken and they are then fully credit and reference checked before being accepted as tenants.

Once accepted a moving in date is agreed and the tenancy agreement is compiled which is signed by both the tenants and the landlord.

Before the tenants move into the property a full inventory is taken and a security deposit is lodged with the deposit protection scheme (DPS). The first months rent is taken together with the signed inventory.

Any queries, questions or problems the tenants have, day or night, through the term of the tenancy will be dealt with by Humberstones Homes. The rent will be collected by standing order and then passed by bank transfer to the landlord minus the management fee along with a monthly statement for your records.

During the tenancy a representative of Humberstones Homes will visit the property periodically to inspect the condition and a full report is sent to the landlord.

We can provide tax statements and also deal with non UK resident landlords.

At the end of the tenancy Humberstones Homes will check the tenants out of the property.

Let Only Service

The let only service is exactly the same as the fully managed service up until the tenants move into the property.

Once the tenants have moved in they are given contact details of the landlord

The landlord will be required to collect the rent from the tenants.

The landlord will be expected to deal with any problems the tenants have until the end of the tenancy.

At the end of the tenancy Humberstones Homes will check the tenants out of the property.

2.0 Landlord Guide to Gas Safety

This guide provides a more detailed explanation of the Gas Safety legislation and the responsibilities that it imposes on you as landlord.

The health risks of poorly fitted or maintained gas appliances and flues cannot be underestimated and failure to fulfil your duties as landlord could result in fines of up to £5000 for each offence. If a case is referred to the Crown Court then there is the possibility of receiving an unlimited fine and even a custodial sentence.

Worst of all, failure to maintain appliances correctly could result in a tragic and unnecessary loss of life.

The Gas Safety (Installation and Use) Regulations 1998

These deal specifically with the installation, maintenance and recommended use of gas appliances, flues and associated pipework in domestic and some commercial premises. The Regulations require that such items, whether fixed or portable, that are provided for the tenant must be safe to use. This includes appliances and flues serving 'relevant premises', such as a central heating boiler that although not installed in a property is used to heat it.

Items not covered under the Regulations' safety check and maintenance requirements include appliances owned by the tenant, flues or chimneys that are connected solely to an appliance owned by the tenant and gas appliances used exclusively in an area of the premises designated and occupied for non-residential purposes.

'Relevant Premises'

The duties under the Regulations in relation to the appliances, flues and associated pipework provided for the tenant's use apply to what is termed 'relevant premises'. This means those that are occupied for residential purposes either under a licence, fixed term tenancy or a lease as defined by the Regulations. In practice it covers any lease for a term of less than seven years.

Landlord Duties

As landlord you are required to

- Ensure that gas fittings and flues are maintained in a safe condition at all times. All gas appliances must be serviced in accordance with manufacturers instructions and by a Gas Safe registered engineer.
- Safety check all gas appliances and flues in rented accommodation within 12 months of being installed and thereafter at least every 12 months by a Gas Safe registered gas installer.
- Ensure that an annual gas safety check is carried out and that certificate is issued to the tenant for all gas appliances, flues and associated pipework.
- Keep full records for at least 2 years of the inspections of each appliance and flue. These must include records of any defects found and of any remedial action taken.
- Give each new tenant a copy of the safety certificate issued by the engineer before the tenancy commences or to each existing tenant within 28 days of the check being carried out.

Management Responsibilities

As landlord you are ultimately responsible for ensuring compliance with the requirements of the Regulations.

Where we are managing your property then we have a joint legal responsibility with you to ensure that all checks, maintenance and repairs are completed. You can nominate a contractor of your choice or leave us to select from our one of highly recommended local contractors.

If you are managing the property yourself then it is entirely your responsibility to ensure compliance with the Regulations.

If the property is sub-let then the original landlord and the person sub-letting will usually share the legal duties imposed by the Regulations. It is important in such a situation to establish and allocate these duties with the tenant's safety as the number one priority.

Maintenance Requirements

Work carried out on gas appliances, flues and associated pipework in the premises must be completed by a current Gas Safe-registered installer. They will carry on them a Gas Safe Photo Identification card that shows their photograph, registration number, trading title and date when the card expires. On the reverse of the card it details the areas of gas work that the installer is qualified to carry out.

If an appliance fails its safety check then the safety record must be updated with the exact nature of the defect and what remedial action was taken. You must ensure that a Gas Safe-registered installer repairs the defect and that the equipment is safe **before** it is used again. You must **never** use or allow to be used any appliance that you have been told is unsafe until it has been repaired in accordance with the requirements of the regulations.

For further information please call Gas Safe on **01256 372 200** or visit **www.corgi-gas.com**
In case of a gas emergency contact the National Grid (formerly TRANSCO) on **0800 111999**
or visit **www.nationalgrid.com**

Copies of the Gas Safety Regulations can be obtained on-line at www.hmsa.gov.uk

We recommend AMD Gas and Plumbing Services to complete our landlord Gas Safety Certificate on 07936 326730. Cost £60.00

3.0 Landlord Guide to Electrical Safety

The following requirements are the responsibility of the Landlord as owner.

Apart from the Landlord's Common Law duty of care, the Landlord & Tenant Act 1985 (and several other statutory regulations see below) requires that the electrical equipment is safe at the start of every tenancy and maintained in a safe condition throughout the tenancy.

There is no statutory obligation on landlords or agents to have professional checks carried out on the electrical system or appliances. However, under Common Law and various statutory regulations: The Landlord and Tenant Act 1985, The Housing Act 2004, The Electrical Equipment (Safety) Regulations 1994, and the Plugs and Sockets etc. (Safety) Regulations 1994, both of which come under the Consumer Protection Act 1987, there is an obligation to ensure that all electrical equipment is safe.

We strongly advise all Landlords have an electrical safety certificate on any rented property. Cost £75.00

Any Landlord, regardless of whether they see themselves as running a business or not, should make absolutely sure they are complying with these regulations to ensure that all electrical equipment supplied is safe.

You should carry out regular inspections of fixed electrical installations - like sockets and light fittings - every five years. You should also arrange, at least once a year, for a qualified electrician to carry out a portable appliance testing (PAT) safety test on any portable electrical equipment you provide for tenants, like kettles. The PAT tester will give you a dated certificate and put stickers on the plugs of appliances to show that they are safe.

Under the Electrical Equipment (Safety) Regulations 1994, and certain other regulations, electrical appliances and equipment provided in tenanted premises must be safe. It is therefore necessary to arrange a qualified electrician to carry out a comprehensive check to ensure that all electrical items, plugs and leads are completely safe and undamaged and to remove or replace any faulty items.

In particular, each item should be

- Well maintained, complete and in full working order.
- Supplied with a mains lead in good condition without wear, fraying or joining repairs and that it is secure at both the plug and appliance.
- Accompanied by user instructions, guidelines and warnings.
- Fitted with the correct plug of the latest approved type (BS1363) with sleeved live and neutral pins and also fitted with the correctly rated fuse.

4.0 Consumer Protection – Fire Safety

The Furniture and Furnishings (Fire) (Safety) Regulations 1988 (amended 1989 & 1993) provide that specified items supplied in the course of letting property must meet minimum fire resistance standards. The regulations apply to all upholstered furniture, beds, headboards and mattresses, sofa-beds, futons and other convertibles, nursery furniture, garden furniture suitable for use in a dwelling, scatter cushions, pillows and non-original covers for furniture. They do not apply to antique furniture or furniture made before 1950, bedcovers including duvets, loose covers for mattresses, pillowcases, curtains, carpets or sleeping bags.

Items that comply will have a suitable permanent label or swing ticket attached. Non-compliant items must be removed before the tenancy commences.

Smoke Alarms

All properties built since June 1992 are required to have been fitted with mains powered smoke detector alarms from new. Although there is no legislation requiring smoke alarms to be fitted in other ordinary tenanted properties, it is generally considered that a common law 'duty of care' exists meaning that landlords and their agents could be liable should a fire cause injury or damage in a tenanted property where smoke alarms are not fitted. We therefore **strongly** recommend that you fit at least one alarm on each floor in the hall and landing areas. Where possible we also recommend the provision of fire extinguishers and/or fire blankets.

Other Goods

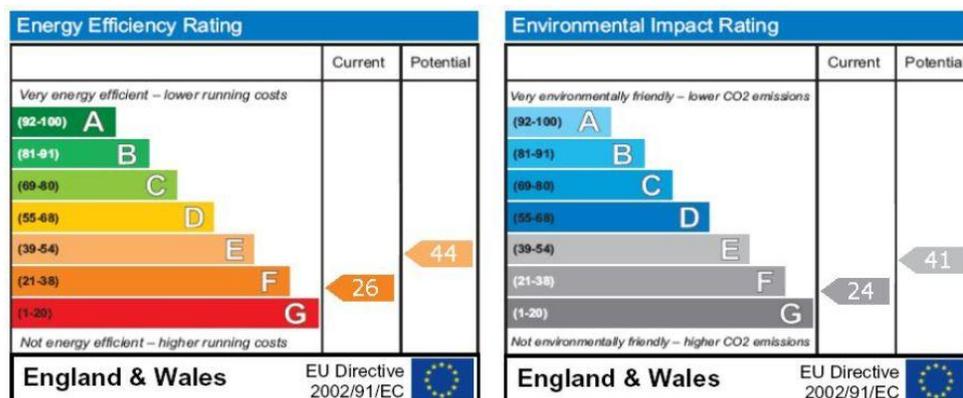
Specific safety regulations exist for high-risk goods including gas cooking appliances, electrical equipment, upholstered furniture and nursery equipment. The General Product (Safety) Regulations 1994 state that all goods must satisfy general safety provisions – essentially that they must be 'reasonably safe'.

The Consumer Protection Act 1987 reiterates this point stating that such goods supplied in the course of a business must be 'reasonably safe' and includes goods that are both new and used.

5.0 A Landlord's Guide to Energy Performance Certificates (EPCs)

From **1st October 2008**, it will have been a legal requirement of every landlord to provide their prospective tenants with an Energy Performance Certificate (EPC). This legislation only applies to tenancies commencing on or after this date. Properties which are already occupied by a tenant on that date are temporarily exempt from this requirement until the tenancy changes (if applicable).

EPCs are similar in appearance to the certificates that appear on fridges and freezers (see example below).



From 1st October 2008, it will be illegal to advertise a property to rent unless it has a valid EPC. Unless agreed otherwise, we will arrange this on your behalf before we commence the marketing of your property. A £200 fine could be imposed for failure to comply.

How long does an EPC Last?

The certificates will last for **10 years** before they are required to be renewed. It can be used as many times as necessary during this period and a new EPC is not required even if work is done to the property during this time, although a new EPC can be commissioned if the landlord prefers to do so.

In addition, if a landlord purchases a property to let out that has an EPC as part of the Home Information Pack, this EPC can be used for letting purposes. The same applies when a property is bought from new that has a valid EPC.

Who Provides an EPC?

An EPC must be prepared by a registered assessor (a domestic energy assessor) who is fully qualified and Government Certified.

What is the Cost of an EPC?

Costs for producing an EPC vary, depending on the size of the property. This will be in the region of £100. We can provide you with an accurate quote before instructing an assessor to carry out the report.

What does an EPC show?

The EPC's will provide each individual property with two energy ratings:

The SAP Rating: This rating provides an indication of a property's energy efficiency (i.e. the running costs for the property). The higher the SAP (Standard Assessment Procedure) rating, the lower the fuel costs to heat the home.

The Environmental Rating: This is an assessment of the property's impact on the environment (i.e. the average carbon dioxide emissions for a year). The lower the rating, the more impact it has on the environment.

Each of these is rated A to G, with A being the most energy efficient. The A to G Scale is similar to that which is attached to refrigerators. The average rating is likely to be D or E.

The assessor will also provide details of how a property's energy efficiency could be improved (for example, by the installation of UPVC windows and cavity wall insulation etc.). It is important to note that there is no legal requirement for the landlord to act on any of the recommendations contained in the report.

For what types of property is an EPC required?

The rule is that an EPC is required for individual dwellings which, for these purposes, mean a self-contained unit with its own kitchen, toilet and bathroom behind its own front door. An EPC is only required on a rental of a building or part of a building if it is designed or has been altered to be used separately.

An EPC is **not** required for non self-contained accommodation such as bedsits. Renting out individual rooms in a building with shared facilities (e.g. the kitchen, toilet or bathroom) does not require an EPC. **NB – This is the interpretation currently provided by Government lawyers, but such interpretation may change over time.**

An EPC is required as follows:-

Individual house/dwelling (i.e. a self-contained property with its own kitchen/bathroom facilities)	one EPC for the dwelling.
Self-contained flats (i.e. each behind its own front door with its own kitchen/bathroom facilities)	one EPC per flat.
Bedsits (where there is a shared kitchen and/or bathroom)	no EPC is required.
Shared flats/houses (e.g. a letting of a whole flat or house to students/young professionals etc.)	one EPC for the whole house.
Mixed self contained and non self contained accommodation	one EPC for each self-contained flat/unit but no EPC for the remainder of the property.
A room in a hall of residence or hostel	no EPC is required.
Individual room in a flat or house (e.g. where a tenant rents a room so he/she has exclusive use of his/her bedroom and shared use of the kitchen and bathroom)	no EPC is required.

When must an EPC be provided?

A copy of the EPC must be made available to the prospective tenants at the earliest opportunity. This means that they must be given the opportunity to look at the certificate and read it through. Therefore at Humberstones Homes we will arrange for an EPC to be completed when we start the marketing of your property.

As a minimum, a copy of an EPC must be made available in this way to a prospective tenant:
 When somebody requests information about the property
 When someone makes arrangements to view the property
 When someone makes an offer to rent the property

Where property details are produced, these must include a copy of the EPC.

How is an EPC handed over to a tenant?

An EPC can be sent electronically provided the tenant/prospective tenant agrees. A record should be kept of handing over an EPC, whether this is done manually or electronically. Only a copy need be provided, not the original.

Who is responsible for an EPC?

The legal responsibility rests with the landlord, but as a letting/managing agent, Humberstones Homes will fulfil this responsibility and arrange for the EPC to be completed. However, responsibility for compliance still remains with the landlord.

How are EPCs enforced?

The Local Authority's Trading Standards department is the relevant enforcement authority. There are fixed penalties for failing to provide an EPC or failing to make one available when required. The fixed penalty for dwellings is £200 per dwelling. There is a six month time limit for any enforcement action to be taken.

What happens if a property is sub-let?

If a property is sub-let then responsibility will lie with the landlord under the sub-tenancy (i.e. the tenant) to provide an EPC. The head landlord is not in breach of the regulations if his tenant creates a sub-tenancy but fails to provide an EPC. However, in this situation, the tenant is entitled to use any EPC which he receives from his landlord to pass onto the sub-tenant.

What if your property has a tenancy already in place?

An EPC is not required for properties with a tenancy agreement currently in place. When a property becomes available for re-let (i.e. when the tenancy ends) or when a new tenancy agreement is drawn up (i.e. on renewal), then an EPC will be required.

So what must a landlord do before letting out a property?

1. Commission and obtain an EPC from a registered assessor. Humberstones Homes will arrange to carry this out on your behalf for £95. If you already have an EPC for the property - e.g. if you have recently bought a property with a valid EPC - please provide us with the EPC to use.

2. Make a copy of the EPC available to any prospective tenant free of charge. Humberstones Homes will again provide this copy to all prospective tenants as part of the marketing / property details that we produce when marketing our properties available to let.

3. Give the tenant a copy of the EPC before he/she signs the tenancy agreement including the recommendation report (again free of charge). This applies even if they have already seen it. Again Humberstones Homes will make sure that the tenant has this copy before signing the tenancy agreement.

The Department for Communities and Local Government has released guidelines for landlords of rented property in relation to EPCs. This is a 32-page document that can be accessed via the link below, or we can email this to you on request.

<http://www.communities.gov.uk/publications/planningandbuilding/epclandlordguide>

The Energy Act 2011

On 18 October 2011, the Energy Act 2011 received Royal Assent. One aim of the Act is to improve energy efficiency. There is one area in particular where it appears that the stick is to be used rather than the carrot, namely the provisions relating to commercial property. The Act requires regulations to be made that will compel a landlord to achieve and maintain a specified level of energy efficiency for his property as set out in its energy performance certificate. If the landlord allows the level of energy efficiency to fall below the specified level, he will not be allowed to let his property until he has carried out prescribed energy efficiency improvements. A breach of the regulations may result in a fine.

The Act specifies that these regulations must come into force no later than 1 April 2018. Until regulations are made, there are a lot of uncertainties for commercial landlords, including whether their property will actually fall within the regulations (it appears that the types of commercial properties affected will be specified in the regulations), what level of energy efficiency they will be required to maintain in accordance with the energy performance certificate for the property and how long they will have to undertake energy efficiency improvements if their property is not compliant with their EPC, before being subject to sanctions. The underlying message from this is that landlords need to start thinking about the energy efficiency of their buildings now to stay ahead of the game. If they do not, they face the risk of either not being able to let their property or having to carry out potentially costly improvements in a tight timescale.

6.0 Insurance

5.1 Buildings Insurance

As a landlord you will be responsible for providing building insurance on the property. This should be a landlord's insurance policy which will cover additional areas such as:

Malicious damage - caused by tenants up to £5000

Loss of Rent - up to 20% of the buildings sum insured

Property owners liability - up to £2 million

5.2 Contents Insurance

Tenants are responsible for the contents insurance

5.3 Legal Expenses and Rent Protection

Property Let Legal Protection and Rent Guarantee is a legal expenses insurance contract. It will help you by providing legal advice and assistance if you have let out your home and have a legal dispute with your tenants over rent arrears or repossession of the property or if your property is damaged.

Rent guarantee cover includes:

- Repossession
- Property damage
- Eviction of squatters
- Recovering rent arrears
- 24 hour legal advice helpline
- Legal costs up to £100,000

This policy will pay the rent arrears while the tenant or ex tenant occupies the property

NB: For rent protection insurance on Let Only properties we can put you in touch with our contact for a quote

7.0 Landlord Guide To Tax

This guide is designed to assist you in understanding your liabilities and responsibilities as landlord in relation to taxation. However, we are not accountants so we always recommend seeking professional advice in relation to all tax matters.

Income Tax

The income that you receive from letting property, whether furnished or unfurnished, is generally regarded as unearned income by HM Revenue & Customs (HMRC), regardless of your employment status. However, you are only liable to pay income tax on the *profit* generated from letting, after deductions made for 'allowable expenses'.

What are 'allowable expenses'?

The general rule as to whether an expense is an allowable deduction from income is to ask the following two questions:

- 1 - Is it an expense of income?
- 2 - Was it incurred 'wholly and exclusively' for the purposes of renting the property?

The first question generally rules out any capital expenditure. However, whether this applies to *renovations* depends on the extent of repair in each particular case. If a property is already in a condition suitable for letting when it is acquired, then renovations such as redecorating will usually qualify as allowable expenses. However, if a property is acquired at a low cost and requires a great deal of work before it can be let then it will usually be classed as capital expenditure and not an allowable expense that can be set against rent received. But if the expense is incurred in making good the damage caused by previous letting of the property, whether as repair or replacement to an equivalent modern standard, it should qualify as a deduction against income. As a general rule where there is an element of *improvement*, such expenditure is to be treated as capital not income.

Care should be taken in this area as there have been several borderline cases taken to court for rulings and the exact boundaries are not yet clear. You should seek professional tax advice on any expenditure of this nature whose tax interpretation may be uncertain.

The second question rules out any situation where a landlord benefits personally from the expenditure. For example, decorating materials purchased and used at the landlord's private home are not an allowable expense.

Whilst you cannot charge for your own time spent collecting rents and managing properties, payments made to others for this purpose (even family members) are allowable expenses if actually performed and recorded. This includes the cost of employing a letting agent. You should keep records to support the figures entered onto your tax return and retain them for six years, which will help if HMRC were to open an enquiry into your tax return.

Examples

The following types of expenditure are usually regarded as 'allowable expenses':

- Interest paid on loans taken out to purchase the property (mortgage interest)
- Letting agents' fees
- Accountants' fees (in preparing your letting accounts)
- Travel expenses incurred when inspecting the property and/or collecting rent
- Cleaning and gardening costs
- Buildings and contents insurance costs
- Repair / maintenance expenses (but not improvement – see above)
- Leasehold expenses such as ground rent or management company charges
- Utility bills, water rates and council tax (though these are usually paid by the tenant)

Furnished Properties

Additional rules apply to furnished properties. There is no legal definition of what constitutes a furnished property, but HMRC guidance says “sufficient furniture must be provided for normal occupation”. In practice this means beds, chairs, tables, sofas, cupboards, cooker, fridge etc.

For furnished properties, technically the cost of providing furniture and fittings is a capital expenditure and therefore not an allowable expense. However, HMRC offers landlords two options to offset such expenses for this type of property.

The first (and usually more advantageous) option is permitting you to deduct a 10% ‘wear and tear’ allowance, calculated on the gross rent less any council tax or rates. But in this case you cannot claim the cost of buying the items.

Alternatively, you may deduct the full cost of replacing items on an ‘as you go’ basis as and when necessary. It is important to remember that with this method the original outlay for furniture and fittings is not allowable expenditure – only replacements for damaged or worn-out items are.

Once you have chosen one of the two options for offsetting this expenditure, you are not allowed to change to the other whenever it suits best.

Losses

If expenses and capital allowances for any year are greater than the rental income received then you have suffered a loss on your investment for that year.

You are not allowed to set this loss against other forms of income; instead you can set it against a profit from another property that you own, otherwise if not you must carry it forward to set against the rental profits (from any property) of future years.

Non-Resident Landlords

If you reside outside the United Kingdom during the tenancy then you will still remain subject to income tax on rents received.

In this case the Non-Resident Landlord Scheme (NRLS) requires us as your agent to deduct basic rate tax from any rent we collect on your behalf. However, you can apply to HMRC for approval to receive your rental income without tax deductions. This is submitted on a NRL1 form that we can supply you with, which requires you to disclose your current tax situation and obligations.

If this application is successful we will be able to collect your rent and pay it to you gross. Although the rent may be paid to you with no tax already deducted it will still remain liable to tax, so if you are a non-resident landlord then you must include it in any tax return that HMRC provides you with.

Capital Gains Tax

Capital Gains Tax (CGT) is payable on the profit or gain made from the increase in value of a property during the period of ownership. The calculation is:

(The sale proceeds LESS costs of making the sale) **LESS**
(The original purchase price PLUS costs of buying and any capital improvements)

It is therefore important to keep copies of all relevant documents from the original purchase, and also any invoices relating to improvements carried out during the period of ownership.

CGT is not usually payable on a private individual's own home, but is payable on most property that is let out. If there is overlap between the two, you will pay CGT for the amount of time that the property was not your ‘principal private residence’ (i.e. where you actually lived).

Reducing CGT Liability

The capital gain generated upon sale is not simply the sum arrived at by subtracting the purchase price from the sale price. The following allowances can often reduce your liability:

- Annual exemption – Every individual has an annual amount that is exempt from CGT. Where a property is in joint names, then the gain is split and each joint owner can use their own annual exemption. Please see HMRC guidance for the latest annual exemption amounts for a given year.
- Capital expenditure on improvements – Installing central heating or upgrading to double-glazed windows would be examples. As long as these have not attracted relief as an income expense then such expenses are deductible.
- Professional fees – Charges made by solicitors, surveyors, financial advisers and mortgage specialists to facilitate the purchase and sale are also deductible.

Inheritance Tax

A property is treated as part of your estate for the purposes of inheritance tax (IHT). Property does not qualify for any special IHT relief. Ownership of property can be varied by deed of trust, but care is required in changes of ownership as they could be regarded as disposals for CGT purposes.

Rental property should always be considered in any IHT planning, and owning a rental property probably means that you should carry out some IHT planning.

N.B. This information is correct at the time of writing and is for general guidance only. Please always seek independent financial advice when considering renting out your property or visit the HMRC website for the latest information at www.hmrc.gov.uk.