

FACTSHEET 33

Residential Property Rental Income – Tax Deductions

Repairs

You are entitled to claim a tax deduction for any property repairs that are necessary to prevent further deterioration eg exterior / interior painting , stone cleaning , damp treatment , roof repairs , repairs to equipment and fittings . Repairing fixtures which are an integral part of the building such as baths , washbasins , toilets , central heating installations , etc can also be claimed . The repairs must be on a like for like basis (ie no substantial improvement element) . This is a completely separate matter from the claim for depreciation of assets which is discussed below .

Depreciation of Equipment

In the context of residential property the Inland Revenue do not allow the standard claim to be made for depreciation of equipment . The two available options are to claim a 'wear and tear allowance' or to opt for a 'renewals allowance' . It is important that having adopted one basis of claim you cannot then change it from one year to the next .

Wear & Tear Allowance

This is an attempt to cover the depreciation of equipment items such as furniture , fridges , beds , televisions , carpets , crockery , curtains , linen , cookers , washing machines , etc .

The allowance is calculated as 10 per cent of rental income net of any expenses paid by the landlord which would otherwise be the tenant's liability , eg rates , water rates , council tax .

The 'wear & tear allowance' is simple to calculate and has the benefit of getting a tax deduction from the outset unlike the 'renewals' basis (below) where relief can only be claimed when an item is replaced .

The Renewals Basis

Here the cost of replacing equipment (ie freestanding moveable items) can be claimed as an expense , eg you replace a washing machine in the flat . You sell the old one for £20 and buy a washer dryer for £559 . The cost of buying a new washing machine like the old one would have been £399 . You deduct from the £559 both the £20 received for the old one and the £160

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which represents the difference in cost between a washing machine and a washer dryer . Your renewal deduction from rental income is therefore £379 .

What About Improvements To The Building That Are Not Repairs

Where a significant improvement is carried out the cost should be recorded and will be added to the original base cost of the property . On the subsequent sale of the property relief will therefore be given for such improvements , thus helping to reduce any potential Capital Gains Tax on disposal .

For further advice and before taking any action please give me a call.

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