



PROPERTY

Don't overlook the value of rent-a-room relief elections

Income from letting one or more rooms in your home can be tax free where rent-a-room relief applies. However, if you also provide services to your guests the income might count as a trade. Does rent-a-room relief still apply?

Rent-a-room relief

You're probably aware that usually income from letting part of your home automatically falls within the rent-a-room scheme where the accommodation is furnished. What you might not know, because HMRC's guidance is misleading, is that where you run a B&B or guest house, which counts as a trade rather than a property rental business, it's potentially also within the scheme.

Trap. If you run a B&B or guest house and your income before expenses for a year is less than £7,500, it's covered by rent-a-room relief and so is tax exempt. Surprisingly, this could increase your tax bill.

Example. Andrea runs a B&B, letting two rooms in her house. 2017/18 is a poor year and she only receives income of £3,000. Her expenses (including capital allowances and a proportion of mortgage interest, which isn't restricted under the new rules for residential lets because the B&B counts as a trade (see **The next step**)), are £4,000. This means Andrea makes a loss £1,000. She could use the loss to reduce tax payable on her other income, but because rent-a-room automatically applies, the income and expenses are ignored for tax purposes meaning she can't claim tax relief for the loss.

Tip 1. You can elect for rent-a-room relief not to apply (see **The next step**) for a year. It's usually worth opting out of rent-a-room where you make a loss from your letting business.

Tip 2. An opt-out election isn't permanent. You can use another election to revert to the rent-a-room scheme whenever you want to.

Calculating losses (or profits)

Where you elect for rent-a-room relief not to apply, you'll need to provide details of your income and expenses to HMRC on your tax return. Your loss (or profit) is worked out in the

normal way, that is, income less expenses. In our example Andrea can claim tax relief for her £1,000 loss by claiming a refund of tax she paid on other income for the same tax year or the one before. Alternatively, she could use the loss against the profit from her B&B for a later year for which rent-a-room didn't apply.

Greater income

There's one situation where you might want the rent-a-room relief deduction even though your income for the year isn't covered by the scheme (because it's greater than £7,500). The good news is that there's a second type of rent-a-room election you can use to achieve this (see **The next step**).

Example. In 2018/19 Andrea receives B&B income of £9,000 and has expenses of £6,000. Because rent-a-room doesn't apply she would normally have to pay tax on her profit of £3,000. However, Andrea can elect to work it out using the rent-a-room relief deduction instead of her expenses. This will reduce her taxable profit to £1,500, i.e. £9,000 - £7,500.

Tip. The election can be used whether your letting counts as a trade or just a rental business. Plus, like the other election you can withdraw for any year for which you don't want it to apply.

The rent-a-room scheme applies to B&Bs and guest houses where income is less than £7,500 in a year. Elect for it not to apply to a year where you make a loss. This can reduce your overall tax bill. If income for a year exceeds £7,500, a different election allows you to opt into the scheme, this too can save tax.

The next step

- [On tax deductible costs](#)
[Further Information]
 - [A sample election to disapply rent-a-room](#)
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 - [A sample election to claim the relief](#)
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