Revenue or Capital

Remember in calculating the profits of your rental business no deduction is allowed for items the tax office consider to be of a capital nature. It is very likely that at some point during you time as a landlord you will need to carry out some maintenance work to keep your property in an acceptable state of repair.

When this happens you will be able to offset the cost against your property income as long as it satisfies the following conditions

1. It is not an initial cost – one that is incurred after the property is purchased but before a tenant has taken occupation of it.
2. It is not a capital improvement – work that the revenue consider increases the value of the property

Initial Cost

If you carry out maintenance work on a property before you let it out, then the cost cannot be offset against your rental income. (However the cost can be offset against any capital gain that you make when you sell the property).

TIP – if you know that the property needs some maintenance work that is not essential; then consider making it after the property has been occupied by a tenant. By doing this you will be able to offset the whole cost against the rental income.

Capital Improvement

If you carry out a capital improvement that increases the value of the property, then you can offset this cost against your rental income.

To offset the cost and treat it as revenue then the following conditions need to be satisfied

1. The cost must be a replacement cost and not for the installation of fixtures and fittings that were not previously in the property
2. The cost must be for a similar like-for like product

Like for like replacement – you could claim the cost of replacing single-glazed windows with double –glazed windows against your rental income. The Taxman has agreed that this is not an improvement, but merely a replacement with the modern equivalent.

TIP – you need to be able to argue that any structural work is replacing old materials with the modern equivalent so it can be deducted from rental income.

Like for like replacement but with capital improvements – you have let out a property for the past eight years and decide to replace the worn out bathroom suite this consists of a bath, washbasin and toilet. To refurbish the bathroom on a like for like basis will cost £2,000 and could be claimed against rental income as no improvement has been made.

If you decide to add a shower costing £300, then the additional cost of the shower will not be allowable against rental income however the cost can be claimed against any capital gain when the property is sold.

TIP – if you are having refurbishment work done ask for a fully itemised bill so you can easily separate out the capital costs.