

Tax-free Rental Income of £8,500

By making the most of the rent-a-room relief and the £1,000 property income allowances, it is possible to receive tax-free rental income in 2018/19 of £8,500 (while utilising your personal allowance elsewhere).

Rent-a-room

Rent-a-room relief is available where you let a room to a lodger or lodgers in your own home. The home does not have to be owned – the relief is also available where you rent a property.

Under the scheme, rental income is tax-free up to £7,500. Where two or more people are entitled to the rental income, the rent-a-room limit is halved, so each person can receive up to £3,750 tax-free.

Where the rental income from letting rooms to lodgers in your house exceeds £7,500 you have a choice. You can either deduct £7,500 from the total rental income and pay tax on the balance or you can work out the actual profit in the usual way. If you make a loss, it is better not to claim rent-a-room relief as you will lose the benefit of the loss.

Property allowance

From 6 April 2017, a new property allowance is available for all types of rental income. Where the rental income is less than £1,000, it does not need to be declared to HMRC. Where it is more than £1,000, as with rent-a-room you have the choice of paying tax on the extra above £1,000 or working out the rental profit in the same way.

No double relief

It is not possible to claim both rent-a-room relief and the property allowance if you let a room to a lodger in your own home, so you must choose. As the rent-a-room threshold is higher, this is the one to pick.

Other sources of rental income

But, if you have another source of rental income as well, for example, a property you let out or if you rent out your drive, you can claim the property allowance in addition to rent-a-room relief.

Case study

Paula works as an administrative assistant and earns £20,000 in 2017/18. To make some extra money, she lets out a spare room in her house to a lodger and receives rental income of £8,000 in 2017/18. As she lives near a popular sporting venue, she also lets out her drive when there are major sporting events on. In 2017/18, she receives income of £1,250 from that source.

She claims rent-a-room relief in relation to the income from her lodger, receiving £7,500 tax-free and paying tax on the remaining £500. She also claims the property allowance to set against the rental income from letting out her driveway, receiving £1,000 tax-free and paying tax on the balance of £250. Her personal allowance is set against her salary.

By using both allowances, she is able to enjoy a tax-free rental income of £8,500 tax-free.