

Tax-free allowances for trading and property income

New allowances were introduced from the 2017/18 tax year for trading and property income. The availability of these allowances means that those with low levels of trading or property income may not need to report this to HMRC.

Trading allowance

The trading allowance is £1,000 for both the 2017/18 and 2018/19 tax years. If you have trading income of less than £1,000, you no longer need to report it to HMRC. This may be the case where a person sells items on eBay, or has a hobby-type business, such as cake making, DIY or crafts which generates only a small income.

Where the trading income is more than £1,000, the trader has the choice of either deducting the £1,000 allowance from income to arrive at the taxable profit, or computing profits in the usual way by deducting actual expenses. If actual expenses are less than £1,000, deducting the allowance will be beneficial, whereas if actual expenses are more than £1,000, deducting the actual expenses will give a lower profit figure, and thus a lower tax bill.

If income is less than £1,000, but the individual makes a loss, they can elect for the allowance not to apply, calculate the loss in the usual way and include the details on their tax return. This will mean that benefit of the loss is not wasted. However, where the loss is small, the hassle of returning it on the tax return may be judged not to be worthwhile.

Property allowance

The property allowance is also set at £1,000 and works in much the same way as the trading allowance. It will benefit those who have a small amount of rental income, for example, from renting out their drive for parking during nearby sporting events.

However, the property allowance cannot be used as well as rent-a-room relief where a householder lets out one or more rooms in his or her home. Rent-a-room relief, which enables the householder to enjoy rental income of up to £7,500 tax-free, trumps the new allowance, but the new allowance can be claimed where rent-a-room relief is not available, i.e. where the let is not of a furnished room in the landlord's home.

Example 1

Juliet enjoys baking and makes cupcakes for parties. In 2017/18 she earns £653 from the sale of her cupcakes, more than covering her expenses.

As her trading income is less than £1,000, she does not need to report it to HMRC.

Example 2

Robert collects sporting memorabilia. He sells items he does not want to keep on eBay. In 2017/18, his income from the sale of sporting memorabilia was £1826. His expenses were £791.

As his expenses are less than £1,000, it is beneficial for him to claim the trading allowance. His taxable profit is, therefore, £826 (£1,826 less the trading allowance of £1,000).