

How does the Rent a Room Scheme work?

You can earn up to £7,500 per year tax-free from letting out furnished accommodation in your home when applying the Rent a Room Scheme.

Although the name suggests renting a single room, you can rent out as much of your home as you would like.

If you share the income with your partner or anyone else, then the threshold is halved, reducing the tax exemption to £3,750 per person.

Who can use the scheme?

You are able to opt-in to the scheme if:

- ❑ you rent a furnished room to a lodger
- ❑ you run a guest house, B&B or other letting activity that amounts to a trade

You do not need to own the property, however, if you are renting, you will need to get permission from your landlord to sublet.

Who can't use the scheme?

As with most HMRC schemes, there are strict eligibility rules. You cannot use the Rent a Room Scheme if the accommodation is:

- ❑ not part of your main home when you rent it
- ❑ unfurnished
- ❑ used as an office or for business purposes
- ❑ in your UK home and is rented while you live abroad
- ❑ converted into separate flats

How do I claim the £7,500 tax exemption

If you earn less than £7,500 per year from letting the room(s), then the tax exemption is automatic and you don't pay any tax on your profit.

If the gross profits are above £7,500 per year, you must complete a Self-Assessment tax return. In this case, you can choose to either:

- ❑ Pay tax on your actual profit: your actual profit is your total receipts minus any expenses and capital allowances.
- ❑ Pay tax on the amount exceeding the £7,500 limit: your taxable profit would be your gross profit minus £7,500. If you choose this method, you cannot subtract expenses or capital allowances.

It would be beneficial to calculate your profits using both methods and choose whichever method produces the lowest amount.

HMRC will automatically use your actual profit to calculate how much you owe. If you would prefer to pay tax on the amount exceeding the £7,500 limit, then you will need to contact HMRC.

This document has been prepared for information purposes and does not constitute advice. All information deemed correct as at 14 October 2025