How to claim your £1,000 property allowance

Landlords can get up to £1,000 in rental income tax-free every year under the Property Income Allowance. If you own a property with others, you can each claim the allowance against your share of the gross rental income.

The property allowance applies to:

- Domestic and overseas property businesses
- Commercial & residential lettings

There are some important exclusions, with the most notable being any rent-a-room receipts and partnership properties.

If you earn less than £1,000 from rental income in the tax year, you don't need to do anything because it's tax-free.

However, if you earn more than £1,000 from UK and overseas property income, then you will need to decide if it's worthwhile to use the property allowance, or if it would be more cost-effective to claim your expenses. It is not possible to claim both.

You can decide each year which is better – £1,000 or the actual costs. Elections must be made by the 31 January following the tax year.

Is it worth claiming the property allowance

If you're renting out a buy-to-let or a second property, usually your expenses are higher than £1,000 a year, so only use this allowance if you misplace your receipts or if you only incurred a few expenses.

However, you can review your expenditure each year and make a choice. You can also give us a call if you would like further advice.

Example

Adam rents out his second home in which he has £1,200 of relievable receipts in the year. He also has legal fees of £150 from drawing up a rental agreement between him and the tenants.

Adam elects to use the property allowance for partial relief.

Here's how he would calculate it:

- Calculate the total receipts of the relevant property business:
    - Calculate the total income related to the property business. For Adam, this amounts to £1,200.

- Subtract the deductible amount from receipts:

- The £1,000 allowance is subtracted from the total receipts for Adam's property business. £1,200 - £1,000 = £200.

Therefore, Adam's taxable profit from his property is £200.

The £150 legal fees are not brought into account because you cannot claim both the property allowance and expenses.