

2026/27



## BUY-TO-LET GUIDE

9 High Street  
Woburn Sands  
Milton Keynes  
Buckinghamshire  
MK17 8RF

T: 01908 583800

E: [Post@camfieldchapmanlowe.co.uk](mailto:Post@camfieldchapmanlowe.co.uk)

W: <http://www.camfieldchapmanlowe.co.uk>

### Director

Christopher D Lowe BSc FCA

Camfield Chapman Lowe is the trading name of Camfield Chapman Lowe Limited

Registered to carry on audit work by the institute of Chartered Accountants in England and Wales



# Camfield Chapman Lowe

Chartered Accountants  
Business Advisers and Tax Consultants

## Buy-to-let: the basics

In this brief guide, we look at the pros and cons of letting out residential property in the UK (including furnished holiday accommodation) for the tax year beginning 6 April 2026. We do not cover the letting of commercial property in this guide, but we are happy to advise on that area of investment on an individual basis.

### Acquisition

Different taxes apply to the purchasers of property in different parts of the UK: Stamp Duty Land Tax (SDLT) in England and Northern Ireland, Land and Buildings Transaction Tax (LBTT) in Scotland and Land Transaction Tax (LTT) in Wales. Each tax has its own thresholds and rate bands.

When purchasing an investment property, the SDLT nil rate threshold is £125,000. For LTT it is £225,000 and for LBTT it is £145,000.

If you buy a second home for £40,000 or more, which is not a replacement for your main home, you must pay a land tax supplement on the entire purchase price. For SDLT this is an extra 5% and for LBTT it is an extra 8%. LTT in Wales has separate bands to cover this situation, which mainly produce a 5% supplement.

For example, if in October 2026 you buy your main home in England for £400,000, you will pay SDLT of £10,000, but if you buy the property as a second home or to let, the total SDLT charge will be £30,000.

If you buy your residential properties through a company (see 'How to hold your property' below), that company must pay the relevant land tax supplement above on all purchases of over £40,000. Where the company acquires residential property in England or Northern Ireland for more than £500,000, the company may have to pay SDLT at 17% on the total purchase price, if it does not intend to use the property for a commercial or charitable purpose.

Where a company holds a residential property located anywhere in the UK, which is not commercially let to an unconnected tenant or acquired for development, it may have to pay the Annual Tax on Enveloped Dwellings (ATED). This annual charge starts at £4,600 for 2026/27 and applies to properties acquired for more than £500,000, or which were valued above that level on 1 April 2022. Higher value residences can attract significantly higher charges.

Any non-resident buying UK residential property in England or Northern Ireland normally has to pay a further 2% SDLT supplement. The definitions of non-residence for SDLT purposes are different to normal statutory rules, so it is possible for an individual or company that is otherwise UK resident to be subject to the supplement.

### What are you taxed on?

As an individual landlord, you must pay Income Tax on your 'property business income'. This is the sum of the rents you receive less the tax-deductible costs (see 'Tax allowable expenditure'). Property income does not include the profit you make when you sell the property and it doesn't take into account any costs of buying, selling or improving the property.

All of the income you receive from letting property in the UK, both residential and commercial, is combined and taxed as one property investment business. A loss on one property can be relieved against profits made from another in the same tax year or in later years. Overseas property lets are treated as separate businesses.

## Ownership by an individual

If you hold the let properties in your own name, you will be taxed on the income and gains arising from those properties. You can't transfer the income before tax to another person without first transferring an interest in the property to that person.

You should declare all the income and expenses from your UK let properties in the property income section of your self-assessment tax return. If you make a loss from the letting, you need to declare that loss on your tax return so that it can be deducted from the profits you make from letting in a later period.

If you let properties that are situated overseas, the income and expenses from those properties must be shown on the foreign income section of your tax return. Profits or losses from overseas properties need to be calculated separately from those arising from UK properties.

## Joint owners

Where a let property is held in the joint names of a married couple, it can provide a useful income stream if one of the couple has little or no other income.

In England and Wales, you can own a property as 'joint tenants' (where both owners hold an equal interest in the whole property) or as 'tenants in common' (where each owner holds a separate and identifiable share, say 10% and 90%, of the property). There are different rules for properties located in other countries, including Scotland.

When a legally joined couple (married or civil partners) own property as joint tenants, any income from that property must be split equally between them for tax purposes and declared as such on each person's tax return.

If the same couple hold the property as tenants in common in unequal shares, they can make a declaration on HMRC's Form 17 to have the property income taxed in the proportion that reflects each partner's beneficial interest in the property. Without the Form 17 declaration, the couple will each be taxed on an equal share of the income from the property. The Form 17 election is irreversible, so once you have elected to be taxed on your actual share, the election will remain in place unless your beneficial interest in the property changes.

Where the joint owners of a property are not married, they can agree to share the income from the property in whatever ratio they choose, although this profit-sharing ratio would normally reflect the underlying beneficial ownership of the property.

If you want to split the property income in unequal shares, instruct your solicitor to acquire the property as tenants in common in the ratio of ownership desired. Where you already own the property as joint tenants, it is quite simple to change to a tenancy in common, but there can be a land tax charge where the property is mortgaged.

When the property is sold, any capital gain arising must be split according to the beneficial ownership of each owner.

## Ownership by limited company

A limited company pays tax at 26.5% or 25%, when profits exceed £50,000 and £250,000 respectively. If the company's annual profits do not exceed £50,000, those profits are taxed at 19%. In contrast, most individuals pay tax on rental income at rates between 20% and 45% (19% and 48% in Scotland). Individuals also pay Capital Gains Tax (CGT) on residential property gains at 18% or 24%.

The rates of Income Tax on rental income are due to increase in 2027/28 – see 'Increase in Income Tax rates'.

Unlike individuals, companies do not suffer a restriction on the deduction of interest and finance charges (see 'Interest paid').

However, there may be further significant tax and National Insurance charges when you extract funds from your company. If you already own a company that holds surplus funds, investing in buy-to-let property can make commercial sense, provided the company can secure a mortgage for the balance of the purchase price. However, where the trade may become overshadowed by the value of the properties it holds, it may

no longer be classified as a 'trading' company, which would mean that the company's shares will no longer be eligible for a number of tax reliefs, including business asset disposal relief.

## Before letting

Once you have acquired your first property and it is available for letting, you need to start identifying the costs that are deductible from the rental income (see 'Tax-allowable expenditure').

"Available for letting" means the property is in a condition where it can be let, subject to cleaning, furnishing and drawing up letting agreements. If the property is in such a poor state that it cannot be let, it can't be treated as part of your property letting business. The expenses connected with renovating a property to bring it up to the standard to meet that "available for letting" condition aren't deductible from your rental income but may be deductible when you sell the property (see 'Capital costs' below).

Expenses incurred before the first tenant moves in, such as advertising or minor repairs, can be deducted from the rents you receive in the first tax year if:

- the expenses are classified as revenue costs rather than capital (see below); and
- the costs are incurred within seven years of the start of the property letting business.

Once your property letting business has started, any later expenditure leading up to the letting of second and subsequent properties will be part of your lettings business and can be deducted, as long as it represents revenue expenses.

## Tax-allowable expenditure

You need to sort your expenses into categories of 'capital' costs connected with buying, selling or improving your properties and other costs that recur as the tenants change, known as revenue expenses.

The box below sets out the main types of revenue expenses, but it is not a complete list. Ask us about any other costs you have incurred that don't fall under one of these headings, as they may be deductible. If your tenant is responsible for paying certain costs – such as energy and council tax bills – you can't claim a deduction for those items.

If your rental income is no more than £150,000, you are expected to account for the income and expenditure from your properties on a 'cash' basis. This means deducting allowable revenue expenses paid from the rents you actually receive in the tax year. You can opt out of the cash basis and use normal accruals accounting if you wish. Companies and Limited Liability Partnerships (LLPs) are not permitted to use the cash basis.

### Allowable revenue expenses can include:

- accountancy fees for drawing up the property business accounts
- advertising for tenants
- ground rent and service charges for leased property
- heating and lighting costs
- insurance for the buildings and contents
- legal fees for drawing up tenancy agreements or collecting debts, but not those connected with acquiring properties
- letting or managing agents' fees
- maintenance and repairs (see below)
- motor expenses for travelling to
- the property
- replacement of furnishings (see below)
- stationery, telephone calls and use of your office or home
- water charges and council tax

### Interest paid

None of the finance charges (such as loan interest and arrangement fees) you pay in respect of your let property are deductible from rental income. This applies if you let residential property as an individual or jointly with other individuals, but companies can deduct all finance costs.

Where you have disallowed finance costs, you can claim a tax credit to set against your Income Tax bill. The tax credit is equal to 20% of the finance charges you paid in the year, even if you pay a higher rate of tax on your rental income (see Example - Maddy).

Where this tax credit exceeds your tax bill for the year, the excess amount is carried forward and added to any tax credit available for finance costs in the following years.

If you have significant loans connected to your let property business, your taxable profits will be much higher than your actual accounting profits. This could have knock-on effects for other taxes and charges you have to pay.

#### Example - Maddy

Maddy lets a property in England for £18,000 per year and pays £10,000 in interest per year. She has no other property expenses, but she is employed on a salary of £34,000. Maddy's tax position for 2026/27 is calculated as follows:

Salary	£34,000
Letting income	18,000
Interest deduction	<u>Nil</u>
Net income	52,000
Less: personal allowance	<u>(12,570)</u>
Taxable income	<u>39,430</u>
<i>Basic rate band limit</i>	37,700
Tax charged @20%	7,540
Tax charged @40%	692
Tax credit – see below	<u>(2,000)</u>
Total tax payable:	6,232

Maddy's tax credit is calculated as:

- 20% x 10,000 = £2,000.

Maddy is making an annual profit of £8,000 (£18,000-£10,000) from her property, but as the interest deduction is restricted, she pays tax on £18,000 of property income. This pushes her total income into the 40% tax band this year.

### Capital costs

Any capital costs, such as improvements, can only be deducted from the sale proceeds of the property. You need to keep track of which capital expenses relate to which let property and retain all the relevant receipts and contracts.

### Furnishings

You can deduct the actual cost of replacing furnishings used in your let property. This covers the cost of replacing items such as carpets, curtains and free-standing white goods, but not the initial cost of those items. The cost of replacing items that are fixed to the property should be claimed as repairs (see below).

### Repairs

The cost of repairs is always deductible from rental income, but the cost of improving a property is a capital cost that is not immediately deductible (see Capital costs). The difference between a repair and an improvement is that a repair restores what was originally there without adding new functionality – everything else is a capital improvement.

#### Example

Refurbishing a kitchen will count as a repair if the new kitchen is of a similar standard to the one it replaces. HMRC will accept the following as repairs: rewiring, plastering, tiling and replacement of fixed fittings such as sink and cooker. If the kitchen is substantially upgraded by, say, increasing the size or by using higher quality materials, the whole project cost should be treated as a capital improvement.

You can't apportion the cost of a project between improvement and repairs. If the work done will fall into both headings, ask the builder to quote and bill for each piece of work separately.

### Record keeping

You must keep adequate records to enable you to report your profits or losses accurately to HMRC, without recourse to estimates. You should retain a record of every relevant expense, but these can be scanned copies of documents. Deposits will relate to individual tenancies, so record when each tenancy commenced and ended and how much of any deposit was retained or returned.

Note down details of any personal assets you use for the letting business, such as the date and distance of car journeys, or the time spent on administration at your own home.

All the records relating to your property business must be kept for at least five years after the submission date for the tax return in which you reported that the property was let or sold, in case HMRC ask about those figures. Documents relating to the tax year to 5 April 2027 should be retained until 31 January 2033.

#### Example

Fred has a new bathroom fitted where one didn't exist before and at the same time redecorates the adjoining bedroom. The new bathroom is an improvement, as it is a new feature added to the house. The redecoration is a repair. Fred asks his builder to give him separate bills for the new bathroom and the decoration of the bedroom. He claims the decorating cost against rental income and treats the new bathroom as a capital improvement.

### VAT - Holiday lettings

VAT at the standard rate is charged on holiday lets, regardless of the type of accommodation or the length of stay, if the business needs to be VAT-registered. This will be the case if business turnover (from holiday rental and any trading businesses combined):

- exceeds £90,000 in the previous 12 months – this must be tested at the end of each month; or
- will exceed £90,000 in the next month alone (in which case the business must be registered from the start of that month).

Accommodation advertised or held out as suitable for holiday or leisure is treated as holiday accommodation; this includes houses, flats, chalets, villas, beach huts, tents, caravans and houseboats. However, holiday accommodation that is let out of season is exempt from VAT (like residential letting normally is), if it is let as residential accommodation for:

- more than 28 days; and
- the area clearly has seasonal holiday trade.

As a VAT-registered business, you will have to submit VAT returns using MTD-compatible software and keep all your VAT records in a digital format.

### Selling the property

Your property letting business finishes when you no longer have any properties available for rent and are not looking for tenants. This may be because you have decided to occupy the last property yourself, or you are keeping the property empty prior to sale.

You cannot deduct any revenue expenses that are incurred after the last property has been withdrawn from the lettings market. Thus, the costs of sprucing-up the property post-letting but pre-sale are not tax-deductible.

### Capital gains

When you sell your let property, you would expect to make a profit, after deducting allowable costs (see below). Gains made from selling residential property, which are not covered by an exemption or other relief, are subject to CGT at 24%, except to the extent that the seller has basic rate band available, when the rate is 18%.

The gain must be reported to HMRC online within 60 days of the completion of the sale. We can do this report for you, but we need to know all the details of the transaction as soon as the sale is completed. Penalties will apply if this 60-day deadline is missed.

You must also pay your best estimate of the CGT due on the disposal within 60 days of the completion date.

If all the capital gains you make in the tax year (not just from property disposals) exceed your annual capital gains exemption (£3,000 for 2026/27), you must declare those gains on the CGT section of your tax return. This applies even where you have already reported the gain online to HMRC within 60 days of the completion date.

If you give away the property to someone other than your spouse or civil partner, or sell it to someone connected to you at a discount, that disposal is treated as a sale at market value for tax purposes.

#### Allowable costs

- solicitors' and estate agents' fees paid on the sale and purchase
- land tax (e.g. SDLT) paid on purchase
- cost of improvements

### Former home

When you have lived in a property as your main home, the gains made relevant to your period of occupation are exempt from CGT on disposal of the property. Other periods you spend away from the property may qualify as deemed periods of occupation if you return to live there at a later date – the detailed rules on this are very complicated! The gain relating to the last nine months of your ownership is also exempt from CGT if you have previously lived in the property as your main home.

If you live in more than one home concurrently, you can nominate which property is to be treated as your 'main residence' and thus exempt from CGT. You can change that nomination at will, but you must normally make the first nomination within two years of the date on which you acquired the second property. A husband and wife, or civil partners, can only have one CGT-free main home between them.

### Non-resident landlords

If you live outside the UK and let property located in the UK, your letting agent (or tenant where there is no agent) should deduct 20% tax from the rents before paying you. However, where HMRC agrees that you qualify under the non-resident landlord scheme, you can receive the rental income without tax deducted. You have to promise to declare the income from your let properties on a UK tax return and pay any tax due on the profits.

Gains arising from the disposal of UK property are subject to CGT in the UK, even where the landlord lives in another country. The gain must be reported to HMRC and the tax paid within 60 days of the completion date, as described above. However, non-resident landlords must also report disposals where there is no tax to pay or a loss is incurred.

### Increase in Income Tax rate in 2027/28

The Income Tax rates applicable to income from property businesses and savings are increasing from 6 April 2027. The basic, higher and additional rates on rental and savings income will all rise by two percentage points, to 22%, 42% and 47% respectively.

The basic rate tax reducer on disallowed finance costs will increase to 22% from 6 April 2027.

There will also be new rules about the order in which certain amounts are deducted from income. Reliefs and allowances (such as trading business losses or the personal allowance) will be deductible against other sources of income in priority to property, savings and dividend income. Property income will be treated as the top slice of non-savings, non-dividend income, coming before savings income (if there is any) and then dividend income.

### Scottish and Welsh taxpayers

While savings and dividend tax rates apply across the whole of the UK, the Scottish Government and Welsh Assembly can vary the rates of tax on non-savings, non-dividend income (although this has not yet happened in Wales). It remains to be seen if either legislative body will opt not to increase their property income tax rate to be in line with the rest of the UK from 6 April 2027, as they are to be given new powers to vary the property Income Tax rates.

#### Example

Gita has a salary of £37,000, dividends of £10,000 and residential property income of £34,000 (before mortgage interest of £13,800). She is an English taxpayer. Her tax calculation in 2027/28 is as follows.

Salary	£37,000
Property income	34,000
Dividends	10,000
Less: personal allowance	(12,570)
Net taxable income	<u>68,430</u>
<i>Tax Calculation</i>	
(37,000-12570=) 24,430 @ 20%	4,886
13,270 @ 22%	2,919
20,730 @ 42%	8,707
500 (dividend allowance) @ 0%	0
9,500 @ 35.75%	<u>3,325</u>
Total	19,837
Less tax reducer (£13,800 @ 22%)	<u>(3,036)</u>
Tax to pay	<u>16,801</u>

If you have a rental business, consider whether, once property Income Tax rates rise in April 2027, your letting business will still be worth operating.

### Inheritance Tax

The value of all your possessions, including the home you live in and your buy-to-let properties, are all potentially subject to Inheritance Tax (IHT) on your death. However, the first £325,000 ("nil rate band") is effectively exempt from IHT, and any unused nil rate band may be inherited by your spouse or civil partner. There is an additional residential nil rate band (RNRB) of £175,000 per person that can be deducted if you leave the value of a home to one or more of your direct

descendants (or their spouses), but this is not available if the property has always been rented out. Any unused amount of this residential nil rate band is also transferrable to a spouse.

Note that, if someone's estate (broadly, their net assets at death), before any reliefs and exemptions, exceeds £2 million, the RNRB is reduced by £1 for every £2 of excess value, until it becomes nil.

There are exemptions for gifts made more than seven years before you die and amounts left to your spouse or to charities.

It is essential to have a well-drafted and up-to-date Will to take full advantage of IHT exemptions and reliefs.

### **Making Tax Digital for Income Tax (MTD IT)**

This has started being rolled out for individual landlords and self-employed traders from April 2026. It requires affected businesses to use commercial software that works with MTD IT, once the business comes within this new reporting regime. Your chosen software must enable you to:

- create, store and amend digital records of the income and expenses of your business;
- send quarterly reports to HMRC;
- submit a finalisation statement (effectively your tax return) by 31 January after the end of the tax year; and
- receive information (such as tax estimates) from HMRC.

How MTD IT is being introduced and what the implications are for landlords are outlined below.

#### **Quarterly reporting**

Once within MTD IT, quarterly reporting of income and expenses will be required. These reports will be for every three months of a tax year.

Each update will be a cumulative total of income and expenses accumulated for the tax year to date. This should avoid the need for corrections to previous updates where errors have been identified.

Each update must be submitted by the 7th of the month following the end of the relevant quarter (e.g. 7th August for the first quarter of 2026/27).

#### **Finalisation statement**

As well as these quarterly reports, a 'finalisation statement' will be required after the year-end, which will be the replacement for the annual tax return. Currently, there is the option to submit a self-assessment tax return (SATR) using HMRC's free online filing service. This service will no longer be available for tax years when someone is within MTD IT.

#### **Who is affected and from when?**

MTD IT will apply for sole traders and landlords with 'qualifying income' above a particular threshold (see below). Qualifying income is all gross income (i.e. before expenses) of self-employed businesses and landlords. All other sources of income reported through self-assessment (e.g. dividends) do not count towards qualifying income.

The dates from which businesses need to join MTD IT are:

- 6 April 2026, where qualifying income exceeds £50,000;
- 6 April 2027, where qualifying income exceeds £30,000;
- 6 April 2028, where qualifying income exceeds £20,000.

Note that:

- The Government intends to continue reviewing MTD and it may subsequently extend MTD IT to those who have income below £20,000.
- There are only very limited exemptions from the MTD IT requirements and they will not be available to the vast majority of landlords.

#### **When is qualifying income determined?**

In deciding whether an individual needs to register for MTD IT for a tax year, HMRC will look at the tax return that should have been submitted in the January before the tax year being considered.

##### **For 2026/27**

HMRC will check the 2024/25 tax return (which should have been submitted by 31 January 2026) to see if qualifying income exceeds £50,000.

##### **For 2027/28**

HMRC will check the 2025/26 tax return (which should have been submitted by 31 January 2027) to see if qualifying income exceeds £30,000.

##### **For 2028/29**

HMRC will check the 2026/27 tax return (which should be submitted by 31 January 2028) to see if qualifying income exceeds £20,000.

#### **More than one source of qualifying income**

Income from all relevant sources will count towards qualifying income.

#### **Example**

Graham has gross income (i.e. before expenses) declared in the 2024/25 tax return as follows:

- £23,000 from rental properties
- £31,000 from self-employment

Total qualifying income is therefore £54,000.

As his qualifying income exceeds £50,000, he will have to register for MTD IT for 2026/27 and make quarterly returns for both his rental business and self-employed business.

#### **Increased administration for landlords**

Many landlords often deal with only a small number of transactions each month or even employ the services of a management agent to deal with their affairs.

Under MTD IT, landlords will be expected to

- keep their own digital records (even where properties are owned jointly); and
- submit quarterly updates online.

#### **Jointly-owned property**

Where a property is owned jointly, taxpayers must include their share of gross property income as qualifying income.

#### **Example**

Where a property is owned jointly and generates £52,000 of gross rental income in a tax year, each taxpayer will include their 50% share, so £26,000. If each taxpayer has no income from self-employment, they will both be below the threshold for MTD IT until 2028/29.

Note that, if a taxpayer has a jointly-owned property and only receives notice of their share of the income after expenses have been deducted, HMRC has confirmed that they will use the net figure for qualifying income.

