Guidance

Tax-free allowances on property and trading income

Find out about annual tax-free allowances for property or trading income and if you qualify.

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You can get up to £1,000 each tax year in tax-free allowances for property or trading income from 6 April 2017. If you have both types of income, you'll get a £1,000 allowance for each.

If your annual gross property income is £1,000 or less, from one or more property businesses you will not have to tell HMRC or declare this income on a tax return. You may be required to complete a tax return for other income.

If your annual gross trading income is £1,000 or less, from one or more trades you may not have to tell HMRC, however there are circumstances when you must register for Self Assessment and declare your income on a tax return.

> You must keep records of this income. This is known as 'full relief'.

If your annual gross trading or property income, from one or more trades or businesses is more than £1,000 you can use the tax-free allowances, instead of deducting any expenses (https://www.gov.uk/expenses-if-youre-self-employed) or other allowances (https://www.gov.uk/capital-allowances).

If you use the allowances you can deduct up to £1,000, but not more than the amount of your income. This is known as 'partial relief'.

If your expenses are more than your income it may be beneficial to claim expenses instead of the allowances.

Gross income means the total amount you would put on your tax return before any allowances or expenses are taken off. This applies whether you use the cash basis (https://www.gov.uk/simpler-income-tax-cash-basis) or traditional accounting (https://www.gov.uk/self-employed-records).

There may be circumstances where you choose to complete a tax return even if your income is £1,000 or less.

If you think you do not need to complete a return (https://www.gov.uk/self-assessment-tax-returns/who-must-send-a-tax-return) you can ask HMRC to stop sending them. You can do this:

- online (https://www.gov.uk/self-assessment-tax-returns/no-longer-need-to-send-a-tax-return) using your sign in details — if you do not already have sign in details, you'll be able to create them
- by phone or post (https://www.gov.uk/government/organisations/hm-revenue-customs/contact/self-assessment)

Trading allowance

The trading allowance is a tax exemption of up to £1,000 a year for individuals with trading income from:

- self-employment (https://www.gov.uk/working-for-yourself)
- casual services, for example, babysitting or gardening (helpsheet 325 (https://www.gov.uk/government/publications/other-taxable-income-hs325-self-assessment-helpsheet) has more information about other taxable income)
- hiring personal equipment, for example, power tools

If your annual gross income from these is £1,000 or less, you do not need to tell HMRC, unless:

- you cannot use the allowances
- you must register for Self Assessment and declare your income on a tax return

You must tell HMRC if you have:

- gross trading income over £1,000 — register for Self Assessment (https://www.gov.uk/log-in-file-self-assessment-tax-return/register-if-youre-self-employed)
- other gross income over £1,000 up to £2,500 — contact HMRC (https://www.gov.uk/government/organisations/hm-revenue-customs/contact/income-tax-enquiries-for-individuals-pensioners-and-employees)
- other income over £2,500 — register for Self Assessment (https://www.gov.uk/log-in-file-self-assessment-tax-return/register-if-youre-self-employed)

This allowance does not apply to trading income from a partnership (https://www.gov.uk/set-up-business-partnership).

Property allowance

The property allowance is a tax exemption of up to £1,000 a year for individuals with income from land or property.

If you own a property jointly with others, you're each eligible for the £1,000 allowance against your share of the gross rental income.

If your annual gross property income is £1,000 or less, you will not need to tell HMRC, unless you cannot use the allowances. If it's higher, you'll need to declare your property income (https://www.gov.uk/renting-out-a-property/paying-tax).

You cannot deduct more than the amount of your income and create a loss.

You must tell HMRC if you have:

- gross property income over £1,000 up to £2,500 — contact HMRC (https://www.gov.uk/government/organisations/hm-revenue-customs/contact/income-tax-enquiries-for-individuals-pensioners-and-employees)
- property income over £2,500 — register for Self Assessment (https://www.gov.uk/log-in-file-self-assessment-tax-return/register-if-youre-self-employed)

If you have two businesses and claim the property allowance in one business you may not claim actual expenses in respect of the other business.

You cannot use this allowance on income from letting a room in your own home under the Rent a Room Scheme (https://www.gov.uk/rent-room-in-your-home/the-rent-a-room-scheme).

When you cannot use the allowances

You cannot use the allowances in a tax year, if you have any trade or property income from:

- a company you or someone connected to you owns or controls
- a partnership where you or someone connected to you are partners
- your employer or the employer of your spouse or civil partner

You cannot use the property allowance if you:

- claim the tax reducer for finance costs such as mortgage interest for a residential property
- deduct expenses from income from letting a room in your own home instead of using the Rent a Room Scheme (https://www.gov.uk/rent-room-in-your-home/the-rent-a-room-scheme)

Self-employed

If you're starting a new self-employed business and expect your annual gross income to be no more than £1,000, you may not have to register for Self Assessment but can voluntarily if your gross income for 2018 to 2019 will go above £1,000 and you want to be in Self Assessment.

You must register for Self Assessment and declare your income on a tax return when:

- you've made a loss and want to claim relief on a tax return (check helpsheet 227 (https://www.gov.uk/government/publications/losses-hs227-self-assessment-helpsheet) for more information about losses)
- you want to pay voluntary Class 2 National Insurance contributions to help qualify for some benefits (https://www.gov.uk/national-insurance/what-national-insurance-is-for)
- you want to claim Tax Free Childcare for childcare costs based on your self employment income
- you want to claim Maternity Allowance, based on your self-employment

You can still use the trading allowance but you'll need to complete a Self Assessment return using the guidance that helps you fill out the tax return (https://www.gov.uk/self-assessment-forms-and-helpsheets).

If your gross income for a tax year is more than £1,000, you must register for Self Assessment (https://www.gov.uk/log-in-file-self-assessment-tax-return/register-if-youre-self-employed) by 5 October in the following tax year. If you're already registered for Self Assessment, you can use the allowances by deducting them from your gross property or trading income on your tax return. You cannot deduct any other expenses or allowances if you claim the allowances.

If you're in self-assessment check if you need to fill in a Self Assessment tax return (https://www.gov.uk/check-if-you-need-a-tax-return).

Records to keep

If you use the trading or property income allowances you must keep a record of your income.

Examples of the records you may need to keep are:

- copies of your invoices, paper or electronic
- a spreadsheet of your income receipts
- emails confirming income received
- statements from the company who paid you which show the amount you received
- bank statements
- bank deposit pay-in records
- a diary or appointments book showing your income from each customer

HMRC can charge you a penalty if the records you keep are not accurate, complete and readable or if you do not retain them for the required period of time.

Benefits and credits

You may need to calculate your income to work out what benefits you're entitled to.

If you calculate your taxable profits by deducting the trading allowance instead of actual expenses incurred then your income will be reduced by the allowances, for:

- tax credits
- high income child benefit charge
- student loan repayment
- married couples allowances

Income for Universal Credit purposes is not affected by the allowances.

Contact HMRC

Contact the Income Tax helpline (https://www.gov.uk/government/organisations/hm-revenue-customs/contact/income-tax-enquiries-for-individuals-pensioners-and-employees) if:

- you're not sure you can use property or trading allowances
- if you're not in self-assessment and have already paid tax through your PAYE tax code on some of your property income or income from providing casual services as you may be due a refund of the tax paid

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