



Host Families and Income Tax

From time to time, host families ask accommodation/welfare officers about income tax, in connection with payments received from either students, or direct from the school or organisation. Neither English UK nor accommodation/welfare officers are authorities on such matters so we would suggest that host families seek the following individual advice by contacting:

On benefit matters, depending which benefit they receive: Jobcentre Plus, the Pension Service, or their local council if they are in receipt of housing benefit or council tax benefit. NB. If the host provider is claiming means tested benefits from Jobcentre Plus or the Pension Service, and/or claiming Housing Benefit or Council Tax Benefit from your local council, they **must** tell these organisations about any income received from hosting students as soon as you start to receive it.

On taxation matters, either a local chartered accountant (whose fees would for tax purposes normally be deductible from any income derived from students), the local Revenue and Customs office, or the Tax Enquiries Division, HMRC, Euston Tower, 286 Euston Road, London NW1 3UL Tel: 020 7438 6420

Under the *Rent a Room* Scheme the first £4,250 of income is free of tax

As long as the total income you get during the tax year from letting accommodation to students and from providing them with other services (e.g. meals, cleaning, laundry etc) is no more than £4,250, you do not have to pay tax on that income.

If you do get a tax return, all you have to do is tick a box on it to confirm that your rental income is £4,250 or less (on the Land & Property pages of the self-assessment tax return form).

If you share your house with **one or more** people (for instance, as a married couple) and one of you lets a room to a lodger, the whole exemption will go to the person actually renting out the room. If you let the room jointly, **each** of you will get half the exemption that is £2,125.

What happens if the total income is more than £4,250?

If you provide meals or other services, any income you get from the tenant has to be added to the rent. If the total of rent plus meals and other services is more than £4,250, even if the rent alone is less, you are *not* exempt and the tax choice will be between the A or B methods shown below.

If the total income from accommodation and other services is more than £4,250 host families are legally obliged to declare to the HM Revenue & Customs (HMRC) authorities details of payment received from students, whether cash or by cheque, and whether direct from the student or via the school or agency. Families who do not already send in tax returns should ask their local Revenue & Customs office to supply them with the proper form. If Revenue & Customs asks schools for information about such payments, the schools are bound to disclose this.

The HMRC Help sheet IR223 (see link on the final page of this information sheet) states that if the provision of furnished rooms does not amount to a trade (i.e. it is not a guest house or a bed & breakfast business), the income should be included on the Land & Property pages of the self-assessment tax return. (A web link for guidance notes to self assessment tax returns is on the final page).

Available methods

In the case of receiving income of greater than £4,250 per tax year you can choose between:

A paying tax on the total **profit** you make from letting the room; or

B paying tax on the **amount of rent** over £4,250.

If you choose A, you work out your profit by taking your actual expenses away from the total rent you received.

If you choose B, you will need to let your Tax Office know within just under 22 months of the end of the tax year (as per HMRC Help sheet IR223 – see back page). So if you had income from letting a room during the tax year ended 5th April 2005, you must let the Tax Office know that you want to be taxed on this basis by 31st January 2007.

How do I decide which method to choose?

You should choose whichever method is most advantageous to you. To do that you will need to work out how much profit you are making. In other words, how much rent are you left with after deducting your expenses? You should then compare that figure with the amount of rent over £4,250. You should opt for whichever is the lower figure!

Here are a couple of examples to show you what we mean.

Example 1

Mrs Jones lets a room for £100 a week.

Her total letting income (rent) for the year is £5,200. (She is not exempt because her gross receipts exceed the exemption limit of £4,250)

She has expenses of £1,000 so her profit is £4,200.

The amount of rent over £4,250 is £950. (=£5,200 - £4,250).

Using method A, she would pay tax on a profit of £4,200.

Using method B, she would pay tax on £950.

In her case, method B is better and she chooses to use it.

Example 2

Mrs Brown also lets a room for £100 a week plus contributions to heating and lighting.

Her total letting income (rent) for the year is £5,200 plus £200 for light and heating = £5400

She has expenses of £4,500 so her profit is £900.

The amount of rent over £4,250 is £1,150 (= £5400 - £4250)

Using method A, she would pay tax on the profit of £900.

Using method B, she would pay tax on £1,150.

In her case, method A is better. Therefore there is no need for her to choose method B (There is no need to notify the tax office. She simply fills in the figures on the Land and Property pages of her self-assessment tax return.

If she has previously chosen method B, she tells HMRC that she no longer wants it to apply)

Can I change the method year to year?

Yes. But each time you want to change you need to tell your Tax Office within the time limits. This should be done within just under 22 months of the tax year end – as noted above, if you had income from letting a room during the tax year ended 5th April 2005, you must let the Tax Office know that you want to be taxed on method B by 31st January 2007. Similarly, if you wish to tell HMRC that you no longer wish method B to apply, this should be done within the same timeframe.

Also, method B will cease if the rent you get drops to £4,250 (or £2,125 if letting jointly). If, in a later year, your rent goes up and you want to use method B again, you need to tell your Tax Office within the prescribed time limit.

Method A – Allowable expenses

In general, you can claim expenses which are incurred for the sole purpose of generating the income.

The following can be claimed as expenses against the gross amount received from students, thus reducing the profit figure that you need to declare:

- Actual cost of food supplied to the students
- A fair proportion of the costs of other shared services and supplies e.g. Window cleaning, TV rent, telephone rent, redecoration, general household repairs, gas, oil, electricity, fire and theft insurance.
- (A 'fair proportion' will depend on the size of the house, the number of residents, including the host family and the length of time the students stay. It is important to note that **no** claim can be made for the host's own labour, including cooking, cleaning and decorating).
- **EITHER:** (1) The net cost of replacing a particular item of furniture or furnishings. This should be the cost of replacing the equipment **less** any proceeds received from the sale of the old item **less** any part of the replacement cost that represents an improvement or addition to the original item.

FOR EXAMPLE:

Replacement of a desk with a desk and shelving unit

Cost of new desk and shelving unit	£500
Proceeds from sale of old desk	(£50)
Less: Cost of shelving unit element	(£100)
Net cost of replacing the desk	£350

- **OR:** (2) An allowance amounting to 10% of the rent received **after** deducting the charges that a tenant would normally bear but which are, in fact, borne by you (e.g. Council Tax). This allowance, known as a 'wear and tear allowance', is broadly deemed to cover the cost of normal renewals of furniture.

FOR EXAMPLE:

Rent received from the tenant during the tax year	£5,400
Less: Council tax paid by you on behalf of the tenant	(£400)
Balance	£5,000

Wear & tear allowance = 10% of £5,000 = £500

Families should keep receipts for major household bills such as gas, electricity, insurance and articles bought for the students' room. They should have a notebook to record other household costs, in order to ensure that all allowable expenses are claimed. They must also keep details of payments received by or on behalf of students. Tax authorities may sometimes ask for a breakdown of expenses and for receipts, but will usually accept reasonable estimates of expenditure on, say, food and cleaning materials. All these figures should be kept for six years before being destroyed, as HMRC has been known to ask for back history, and it is in the host family's own interest to be able to produce the information.

For further information please see the following HMRC documents:

PIM 4000 – Schedule A – Rent-a-room -

<http://www.hmrc.gov.uk/manuals/pimmanual/PIM4000.htm>

Help sheet IR223 - <http://www.hmrc.gov.uk/helpsheets/ir223.pdf>

Guidance notes for the Self-Assessment tax return – 2005/06 link -

<http://www.hmrc.gov.uk/worksheets/sa105notes.pdf>

NOTE:

HMRC = 'HM Revenue and Customs' which was formed from the merger of the Inland Revenue and HM Customs and Excise.

The income tax year runs from 6 April to 5 April.