

# How to make money from home: rent a room

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**In 1992 the government introduced the Rent a Room relief. This allows individuals to make a tax-free income for renting a furnished room in their residential home.**

On 6 April 2016, the level of tax free income increased to £7,500 per year from £4,250 per year.

The relief can only be used to make money by renting a room in your main residential home. You cannot use it to make money in a second home such as a holiday home in the UK.

## How to claim the tax-free income

Since the threshold was increased the additional tax-free income can be calculated to be around £144 per week. The tax relief is halved if a joint owner is also entitled to half the rental income.

If you are earning less than the limit this the tax exemption is automatic. However, if you are charging more to rent a room you must include this in your annual tax returns to claim the relief.

The relief can be calculated in one of two ways each year:

1. You pay tax on your profit: gross income (rental income, monies charged for cleaning, laundry or other services supplied e.g. gas and electric) less any expenses and capital allowances.
2. You only pay tax on the any income received over the threshold. If choosing this method, you cannot make any deductions for expenses and capital allowances.

You can change the way you want to calculate the tax each year to make it work for you. To do so, you will need to let HMRC know by 31 January following the end of the tax year. Similarly, you must let them know that if you no longer want to claim the relief as you are earning below the threshold.

You can also inform HMRC of a loss by using the first method. Any losses can be used against future rental income to reduce the tax liability in the following year.

## Other things to consider

If you rent a room to more than two individuals, your home may be classed a House in Multiple Occupation (HMO). You will need to contact your local authority to check whether you need to obtain an HMO licence.

If you are renting your own home, you should also check whether your lease allows you to sublet.

The terms of your home insurance and mortgage should also be reviewed before renting a room.

## Upcoming changes

Although no timescales have been given, the Chancellor, Philip Hammond, announced in the Spring 2017 Budget that the government is attempting to redesign this relief to allow residents to have longer term lettings.

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Note: This is not legal advice; it is intended to provide information of general interest about current legal issues.