

EXPLANATORY MEMORANDUM TO
THE INCOME TAX (LIMIT FOR RENT-A-ROOM RELIEF) ORDER 2015

2015 No. 1539

1. This explanatory memorandum has been prepared by Her Majesty's Revenue and Customs ("HMRC") on behalf of HM Treasury and is laid before the House of Commons by Command of Her Majesty.

2. Purpose of the instrument

2.1 This instrument increases the level of rent-a-room relief. This relief allows an individual to receive tax-free income from renting out a room or rooms in their main residence. The tax-free income limit will be increased from £4,250 to £7,500 per year from 6 April 2016. From that date annual rent-a-room income of £7,500 or less does not have to be declared to HMRC. Where an individual receives income above the limit they can choose to pay tax on the excess of their income over the limit (without taking expenses into account) or to pay tax in the normal way (income less expenses).

3. Matters of special interest to the Select Committee on Statutory Instruments

3.1 None

4. Legislative Context

4.1 Chapter 1 of Part 7 of the Income Tax (Trading and Other Income) Act 2005 ("ITTOIA") provides that an individual who qualifies for the rent-a-room relief can receive income of up to £4,250 without it being charged to income tax (the individual's limit).

4.2 The meaning of 'rent-a-room receipts', as described under Section 786 ITTOIA 2005 includes receipts for any meals and cleaning services paid for in relation to the use of the room.

4.3 Section 789 determines the individual's rent-a-room limit for the tax year. The "limit" is the maximum amount of rent-a-room income that is exempt from tax. Section 789 also makes provisions for when two or more people are entitled to the rent-a-room income, in which instance the relief is halved for each person.

4.4 An explanation of what happens when the limit is exceeded is at sections 795 to 798. Sections 799 and 800 describe the elections that can be made to opt out of the relief.

5. Territorial Extent and Application

5.1 This instrument applies to all of the United Kingdom.

6. European Convention on Human Rights

6.1 The Financial Secretary to the Treasury, David Gauke, has made the following statement regarding Human Rights:

In my view the provisions of the Income Tax (Limit for Rent-a-Room Relief) Order 2015 are compatible with the Convention rights.

7. Policy background

7.1 The level of the relief has not changed since 1997. The Chancellor announced in the Summer Budget 2015 that the level of the rent-a-room relief will be increased to £7,500 from 6 April 2016.

7.2 The increase to the rent-a-room relief threshold from £4,250 to £7,500 delivers the government's objective of supporting individual's living standards. The measure will also reduce and simplify the tax and administrative burden for those with rent-a-room income greater than the previous level of £4,250.

8. Consultation outcome

8.1 In line with the Tax Consultation Framework a consultation has not taken place because this instrument gives effect to a straightforward change to a limit.

9. Guidance

9.1 This instrument increases the rent-a-room limit and does not alter the way in which the rent-a-room scheme operates. Details of how the scheme operates is available on the gov.uk website at <https://www.gov.uk/rent-room-in-your-home/the-rent-a-room-scheme>.

10. Impact

10.1 The impact on business, charities or voluntary bodies is expected to be negligible. We predict that most businesses affected (Bed & Breakfasts and guesthouses) will use reliefs related to their trading activity rather than the rent-a-room relief.

10.2 The impact on the public sector is negligible.

10.3 A Tax Information and Impact Note covering this instrument was published on 8 July 2015 alongside Summer Budget 2015 and is available on the gov.uk website at

<https://www.gov.uk/government/publications/rent-a-room-relief-increase>. It remains an accurate summary of the impacts that apply to this instrument.

11. Regulating small business

11.1 The legislation applies to small business. The effect of it is that more small businesses will be able to benefit from rent-a-room relief so it will reduce and simplify the tax and administrative burden for those businesses now able to benefit from the relief.

12. Monitoring & review

12.1 The increase to the rent-a-room limit aims to reduce the tax paid by some landlords that rent furnished accommodation in their main residence. It also aims to reduce the number of people that need to declare property income to HMRC (where their income is below the rent-a-room limit). This will be kept under review through communication with affected taxpayer groups.

13. Contact

Megan Shaw at Her Majesty's Revenue & Customs Tel: 03000 585628 or email: megan.shaw@hmrc.gsi.gov.uk can answer any queries regarding the instrument.