



Income Tax (Trading and Other Income) Act 2005

2005 CHAPTER 5

PART 7

INCOME CHARGED UNDER THIS ACT: RENT-A-ROOM AND FOSTER-CARE RELIEF

CHAPTER 1

RENT-A-ROOM RELIEF

Introduction

784 Overview of Chapter 1

- (1) This Chapter provides relief on income from the use of furnished accommodation in an individual's only or main residence.

The relief is referred to in this Chapter as “rent-a-room relief”.

- (2) The form of relief depends on whether the individual's total rent-a-room amount exceeds the individual's limit (see sections 788 to 790).
- (3) If it does not, the income is not charged to income tax unless the individual elects otherwise (see sections 791 to 794).
- (4) If it does, the individual may elect for alternative methods of calculating the income (see sections 795 to 798).

785 Person who qualifies for relief

- (1) An individual qualifies for rent-a-room relief for a tax year if the individual—
 - (a) has rent-a-room receipts for the tax year (see section 786), and

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- (b) does not derive any taxable income other than rent-a-room receipts from a relevant trade, letting or agreement.
- (2) “Taxable income” means receipts or other income in respect of which the individual is liable to income tax for the tax year.
- (3) A relevant trade, letting or agreement is one from which the individual derives rent-a-room receipts for the tax year.

Basic definitions

786 Meaning of “rent-a-room receipts”

- (1) For the purposes of this Chapter an individual has rent-a-room receipts for a tax year if—
 - (a) the receipts are in respect of the use of furnished accommodation in a residence in the United Kingdom or in respect of goods or services supplied in connection with that use,
 - (b) they accrue to the individual during the income period for those receipts (see subsections (3) and (4)),
 - (c) for some or all of that period the residence is the individual's only or main residence, and
 - (d) the receipts would otherwise be brought into account in calculating the profits of a trade or UK property business or chargeable to income tax under Chapter 8 of Part 5 (income not otherwise charged).
- (2) Meals, cleaning and laundry are examples of goods or services supplied in connection with the use of furnished accommodation in a residence.
- (3) If the receipts would otherwise be brought into account in calculating the profits of a trade, the income period is the basis period for the tax year (see Chapter 15 of Part 2).
- (4) Otherwise the income period is the period which—
 - (a) begins at the beginning of the tax year or, if later, the beginning of the letting in respect of which the receipts arise, and
 - (b) ends at the end of the tax year or, if earlier, the end of that letting.

787 Meaning of “residence”

- (1) In this Chapter “residence” means—
 - (a) a building, or part of a building, occupied or intended to be occupied as a separate residence, or
 - (b) a caravan or houseboat.
- (2) If a building, or part of a building, designed for permanent use as a single residence is temporarily divided into two or more separate residences, it is still treated as a single residence.

788 Meaning of “total rent-a-room amount”

- (1) For the purposes of this Chapter an individual's “total rent-a-room amount” for a tax year is the total of—

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- (a) the individual's rent-a-room receipts for the tax year, and
 - (b) any relevant balancing charges for the tax year (see section 802).
- (2) In calculating the total rent-a-room amount, no deduction is allowed for expenses or any other matter.

Individual's limit

789 The individual's limit

- (1) For the purposes of this Chapter an individual's limit for a tax year depends on whether the individual meets the exclusive receipts condition for the tax year (see section 790).
- (2) If the individual does, the individual's limit for the tax year is the basic amount for the tax year.
- (3) If the individual does not, the individual's limit for the tax year is half that amount.
- (4) The basic amount for a tax year is £4250.
- (5) The Treasury may by order amend the sum for the time being specified in subsection (4).

790 Exclusive receipts condition

- (1) An individual meets the exclusive receipts condition for a tax year if, for each rent-a-room residence of the individual, no receipts accrue to any other person during any relevant period in respect of—
 - (a) the use of residential accommodation (whether furnished or not) in the residence, or
 - (b) goods or services supplied in connection with that use (such as meals, cleaning or laundry),at a time when the residence is the individual's only or main residence.
- (2) Each of the following periods is a relevant period—
 - (a) any income period specified in section 786 for any rent-a-room receipts of the individual for the tax year,
 - (b) the period of 12 months which begins at the same time as any such income period begins, and
 - (c) the period of 12 months which ends at the same time as any such income period ends.
- (3) A “rent-a-room residence of the individual” means a residence in respect of which the individual derives rent-a-room receipts for the tax year.

Relief if amount does not exceed limit

791 Full rent-a-room relief: introduction

- Sections 792 to 794 (which give the full form of rent-a-room relief) apply if—
- (a) an individual qualifies for rent-a-room relief for a tax year,

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- (b) the individual's total rent-a-room amount for the tax year does not exceed the individual's limit for the tax year, and
- (c) no election by the individual under section 799 has effect to disapply the full relief for the tax year.

792 Full rent-a-room relief: trading income

- (1) This section applies if the individual has any rent-a-room receipts for the tax year which would otherwise be brought into account in calculating the profits of a trade.
- (2) The profits or losses of the trade for the tax year are treated as nil.

793 Full rent-a-room relief: property income

- (1) This section applies if the individual has any rent-a-room receipts for the tax year which would otherwise be brought into account in calculating the profits of a UK property business.
- (2) In calculating those profits—
 - (a) those receipts for the tax year, and
 - (b) any expenses associated with them,
 are not brought into account.
- (3) No relevant balancing charge or relevant allowance (see section 802) is made in calculating those profits for the tax year.

794 Full rent-a-room relief: income chargeable under Chapter 8 of Part 5

- (1) This section applies if the individual has any rent-a-room receipts for the tax year which would otherwise be chargeable to income tax under Chapter 8 of Part 5 (income not otherwise charged).
- (2) For each agreement from which those receipts arise, the amount of—
 - (a) those receipts arising in the tax year from the agreement, less
 - (b) any expenses associated with them,
 is treated as nil.

Alternative calculation of profits if amount exceeds limit

795 Alternative calculation of profits: introduction

Sections 796 to 798 (which provide for alternative methods of calculating profits) apply if—

- (a) an individual qualifies for rent-a-room relief for a tax year,
- (b) the individual's total rent-a-room amount for the tax year exceeds the individual's limit for the tax year, and
- (c) an election by the individual under section 800 has effect to apply the alternative method of calculating profits for the tax year.

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796 Alternative calculation of profits: trading income

- (1) This section applies if the individual has any rent-a-room receipts for the tax year which are the receipts of a trade.
- (2) The profits of the trade for the tax year are—
 - (a) the sum of the amount of the rent-a-room receipts for the tax year arising from the trade and the amount of any relevant balancing charge, less
 - (b) the deductible amount.
- (3) The deductible amount—
 - (a) is L if all the individual's rent-a-room receipts for the tax year arise from the trade, and
 - (b) otherwise, is—

$$\frac{L \times T}{R}$$

but, in either case, subject to a maximum of T.

- (4) In subsection (3)—

L is the individual's limit for the tax year,
T is the individual's rent-a-room receipts for the tax year arising from the trade,
and
R is all the individual's rent-a-room receipts for the tax year.
- (5) In calculating the amount of any rent-a-room receipts for the purposes of this section, no deduction is allowed for expenses or any other matter.

797 Alternative calculation of profits: property income

- (1) This section applies if the individual has any rent-a-room receipts for the tax year (“Part 3 rent-a-room receipts”) which are to be brought into account in calculating the profits of a UK property business.
- (2) In calculating those profits for the tax year—
 - (a) the Part 3 rent-a-room receipts for the tax year are brought into account only in calculating the profits of the business for the tax year, and
 - (b) any expenses associated with those receipts are not brought into account.
- (3) In calculating those profits for the tax year—
 - (a) a deduction is allowed, and
 - (b) no relevant allowance, but any relevant balancing charge, is made.
- (4) The amount of the deduction—
 - (a) is L if all the individual's rent-a-room receipts for the tax year are Part 3 rent-a-room receipts, and
 - (b) otherwise, is—

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$$\frac{L \times P}{R}$$

but, in either case, subject to a maximum of P.

(5) In subsection (4)—

L is the individual's limit for the tax year,

P is the individual's Part 3 rent-a-room receipts for the tax year, and

R is all the individual's rent-a-room receipts for the tax year.

798 Alternative calculation of profits: income chargeable under Chapter 8 of Part 5

(1) This section applies if the individual has any rent-a-room receipts for the tax year which are chargeable to income tax under Chapter 8 of Part 5 (income not otherwise charged).

(2) The amount charged for the tax year arising from all the agreements from which the receipts are derived is—

(a) the amount of the receipts for the tax year so arising, less

(b) the deductible amount.

(3) The deductible amount is—

$$\frac{L \times I}{R}$$

subject to a maximum of I.

(4) In subsection (3)—

L is the individual's limit for the tax year,

I is the amount of the receipts for the tax year arising from the agreements, and

R is all the individual's rent-a-room receipts for the tax year.

(5) In calculating the amount of any rent-a-room receipts for the purposes of this section, no deduction is allowed for expenses or any other matter.

Elections

799 Election not to apply full relief

(1) An individual may elect for sections 792 to 794 (full relief) not to apply.

(2) The election—

(a) must specify the tax year for which it is made, and

(b) has effect for that year (unless withdrawn by notice given by the individual).

(3) An election or notice of withdrawal must be made or given to the Inland Revenue on or before—

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- (a) the first anniversary of the normal self-assessment filing date for the tax year for which the election is made, or
- (b) such later date as the Inland Revenue may, in a particular case, allow.

800 Election for alternative method of calculating profits

- (1) An individual may elect for the alternative method of calculating profits given in sections 796 to 798 to apply if—
 - (a) the individual qualifies for rent-a-room relief for a tax year, and
 - (b) the individual's total rent-a-room amount for the tax year exceeds the individual's limit for the tax year.
- (2) The election—
 - (a) must specify the tax year for which it is made, and
 - (b) has effect for that year and subsequent tax years (unless withdrawn by notice given by the individual).
- (3) A notice of withdrawal of an election must specify the tax year for which it is given.
The election ceases to have effect for that tax year and subsequent tax years.
- (4) Withdrawal of an election does not prevent a fresh election from being made for a subsequent tax year.
- (5) An election or notice of withdrawal must be made or given to the Inland Revenue on or before—
 - (a) the first anniversary of the normal self-assessment filing date for the tax year specified in the election or notice of withdrawal, or
 - (b) such later date as the Inland Revenue may, in a particular case, allow.
- (6) If—
 - (a) an election would otherwise have effect for a tax year, but
 - (b) the individual's total rent-a-room amount for the tax year does not exceed the individual's limit for the tax year,the individual is treated as giving a notice of withdrawal of the election which specifies that tax year as the one for which it is given (and the election, therefore, ceases to have effect for that tax year and subsequent tax years).

801 Time limit on adjustment of assessment

- (1) This section applies if it is necessary to make an adjustment by way of assessment to give effect to an election or notice of withdrawal under section 799 or 800.
- (2) The assessment is not out of time if it is made on or before the first anniversary of the normal self-assessment filing date for the tax year for which the election was made or notice was given (or treated as given).

Interpretation

802 Minor definitions

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“letting” includes a licence to occupy,

“relevant allowance”, for a tax year, means a capital allowance falling to be made for the tax year under Part 2 of CAA 2001 in respect of plant or machinery provided for the purposes of a trade or letting from which rent-a-room receipts are derived, and

“relevant balancing charge”, for a tax year, means a balancing charge falling to be made for the tax year under Part 2 of CAA 2001 in respect of plant or machinery provided for the purposes of a trade or letting from which rent-a-room receipts are derived.

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