



Julia Casimo

Making ends meet!

Q. I have my own house, and I am considering getting a couple of lodgers to help with my finances. Do I have to pay tax on the rent I receive?

A. Homeowners looking to ease their finances during the 'credit crunch' may well like to consider the 'rent-a-room' scheme. This genuine tax break allows a homeowner to receive rent of up to £4250 a year tax free by letting out a room in their home.

There are several important provisos.

- The scheme can only be used by individuals, or couples.
- It only applies to furnished accommodation
- The scheme can only be used for residential letting, meaning that you cannot let part of your home as office/commercial accommodation
- The relief is per property, not per person, so if the house is jointly owned the tax free amount does not double.
- You must claim the relief by completing a self assessment tax return.

Q. I was thinking of charging more than £4250 a year in total. What happens then?

A. Then you have a choice. You can either account for all your income and expenses, and pay tax on the profit, or you can pay tax on any excess over the £4250. Let's say you income is £5000 and your expenses are £1000. Your choice is

Pay tax on income of £5000 less expenses of £1000, i.e. pay tax on £4000

Or

Pay tax on £5000 of rent less the 'rent-a-room' fixed deduction of £4250, i.e. pay tax on £750.

The best choice will obviously depend on your individual position.

This can be a very useful tax break. As always, good advice will be essential.

As with many decisions you really do need to take independent financial and tax advice. If you would like our help call Julia on **0151 228 8977** at **John Kerr Chartered Accountants** 369-375 Eaton Road, West Derby, Liverpool L12 2AH. Authorised and regulated by The Financial Services Authority

