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FREE GUIDE · 2026/27 · UPDATED OCTOBER 2026

Tax Guide for Landlords

Rental income, expenses, mortgage interest, Making Tax Digital, holiday lets and Capital Gains Tax

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Whether you have one buy-to-let or a growing portfolio, letting property comes with its own tax rules, and several are changing. This guide explains how rental income is taxed, what you can claim, how mortgage interest works, the impact of Making Tax Digital and what happens when you sell.

> *"I started Zen to make finance feel calm and clear for business owners. I hope this guide answers your questions, and if anything doesn't quite fit your situation, I'm always happy to talk it through with you."*
>
> **Ann Williams**
> Founder, Zen Bookkeeping & Advisory

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01 How rental income is taxed

Your rental profit (rent minus allowable expenses) is added to your other income and taxed at your normal Income Tax rates. Rental income isn't subject to National Insurance.

20/40/45%
property income tax rates in 2026/27

22/42/47%
new property income rates from 6 April 2027

£1,000
property allowance for small amounts of rent

- **Property allowance:** if your rental income is £1,000 or less, it can be tax-free. Above that, you can deduct £1,000 instead of actual expenses.
- **Rent-a-room relief:** earn up to £7,500 a year tax-free from letting a furnished room in your own home.
- **Joint owners:** income is usually split according to ownership. Married couples and civil partners are taxed 50:50 by default unless they own unequal shares and tell HMRC.

02 What you can claim

Allowable expenses

- Letting agent and management fees
- Repairs and maintenance (not improvements)
- Insurance
- Ground rent and service charges
- Utilities and council tax you pay
- Accountancy fees
- Replacing furniture and appliances like for like
- Travel to the property for letting purposes

Not allowed

- The cost of buying the property
- Improvements, such as an extension (but these can reduce Capital Gains Tax later)
- Mortgage capital repayments
- Your own time
- Furniture for a new let (only replacements)

Mortgage interest

For residential property owned personally, you can't deduct mortgage interest from your rental profit. Instead, you get a **tax credit of 20%** of your finance costs. Higher and additional-rate taxpayers therefore get less relief than they used to. Companies can still deduct interest in full.

03 Making Tax Digital and holiday lets

- **Making Tax Digital for Income Tax** applies if your combined gross property and self-employed income is over £50,000 from April 2026, £30,000 from April 2027 and £20,000 from April 2028.
- You'll keep digital records and send HMRC quarterly updates by 7 August, 7 November, 7 February and 7 May.
- **Furnished holiday lets:** the special tax rules were abolished from April 2025. Holiday lets are now taxed like other residential lettings, so the finance cost restriction applies and new capital allowances can't be claimed.

✦ Get ready

See our free guide *Making Tax Digital for Income Tax* for a step-by-step plan.

04 Selling a property: Capital Gains Tax

18% / 24%
CGT rates on residential property gains

£3,000
annual exempt amount

60 days
to report and pay after completion

When you sell a property that isn't your main home, you may pay Capital Gains Tax on the gain: the sale price minus the purchase price, buying and selling costs and the cost of improvements.

! 60-day deadline

For UK residential property, you must report the sale to HMRC and pay any tax due within **60 days** of completion, using HMRC's online property reporting service. This is separate from your tax return.

If the property has been your main home at some point, Private Residence Relief may reduce the gain.

05 Buying more property

Buying an additional residential property in England or Northern Ireland usually means paying a **5% surcharge** on top of the normal Stamp Duty Land Tax rates. Different rules apply in Scotland and Wales.

Personal ownership or a company?

Some landlords buy through a limited company, which can deduct mortgage interest in full and pays Corporation Tax. But taking money out, mortgage rates and moving existing properties into a company can be costly. It needs careful modelling for your situation.

✦ Zen tip

With property tax rates rising from April 2027, now is a good time to review how your properties are owned and how your income is split. We can model the options for you.

06 Your landlord checklist

- [ ] I keep records of all rent received and expenses paid.
- [ ] I separate repairs from improvements.
- [ ] I know whether Making Tax Digital applies to me, and when.
- [ ] Joint ownership shares are correct with HMRC.
- [ ] I report and pay CGT within 60 days when I sell a property.
- [ ] I've reviewed my ownership structure ahead of the April 2027 rate rise.

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How Zen can help

We prepare your property accounts and tax returns, get you ready for Making Tax Digital and help you plan ahead.

- Landlord tax returns
- Property accounts
- Making Tax Digital for landlords
- Capital Gains Tax on property sales
- Ownership and structure advice
- Mortgage support

Book a free, no-obligation call

Tell us about your business and we'll explain how we can help, with a tailored fixed-fee quote for just the services you need.

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