ZAZEN TAX

The Landlord's UK Tax Handbook

For individual landlords in England. Everything the tax system does to a rental property, on 2026/27 rates.

Ten chapters. Written to be read once and kept.

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Contents

Read it in order the first time. Chapter three is the one most landlords come back to, and chapter nine is the one nobody has read yet.

1. What counts as property income

Rent, and almost everything that arrives with it.

Property income is the rent plus anything else the tenant pays you: a share of the utilities, a fee for cleaning, money kept from a deposit to replace something you would otherwise have deducted. It is normally taxed as it arises rather than as it is received, so rent owed to you at 5 April still belongs to that year.

All your UK properties are one property business. Profits and losses are pooled across them, which is why a loss on one property reduces the tax on another, and why a loss overall carries forward against future property profits rather than against your salary.

> THERE IS NO NATIONAL INSURANCE ON IT
>
> Property income is not earnings. No Class 2, no Class 4, whatever the size of the portfolio, unless what you are doing is genuinely a trade rather than an investment. That gap is the stated reason for the new rates in chapter nine.

2. What you can actually deduct

The running costs of the letting, and nothing capital.

Deductible	The catch
Letting agent fees	Management and re-letting both
Landlord insurance	Not ordinary home insurance
Repairs and maintenance	Like for like, or the modern equivalent
Ground rent and service charge	None
Safety certificates	Gas, electrical, EPC
Replacing domestic items	Capped at the like for like cost
Accountancy	For the property business
Travel to the property	Business proportion only

Two things people put through that do not belong. Mortgage interest is not a deduction and has not been since April 2020, which is chapter three. Capital repayment never was a cost at all: it is you buying more of your own house.

> **THE FIRST SOFA IS CAPITAL, THE SECOND IS NOT**
>
> Replacement of domestic items relief covers replacing furniture, appliances and kitchenware. It does not cover furnishing the property in the first place, and where the replacement is an upgrade you claim the cost of a comparable item rather than what you actually spent.

3. Section 24, and how tax exceeds profit

Interest is not deducted. You are taxed on rent less running costs, and given a basic rate reduction afterwards.

Before 2017 mortgage interest came off your rental profit like any other cost. It was phased out between 2017 and 2020, and from 6 April 2020 no part of a dwelling-related loan is deductible. Instead you get a reduction against your tax bill worth 20 per cent of the finance costs.

A worked landlord

	Amount
Rent	£24,000
Running costs	£4,000
Taxed on	£20,000
Mortgage interest	£15,000
Actually earned	£5,000
Tax before the reduction	£13,432
Basic rate reduction	£3,000
Tax on the property	**£3,946**

This landlord has a salary of £45,000, so the rent sits in the higher rate band. They made £5,000 and paid £3,946 of tax on it. Under the old rules the same year cost £1,000, so section 24 costs them £2,946.

> PUSH THE INTEREST TO £17,000 AND THE TAX EXCEEDS THE PROFIT
>
> Real profit £3,000, tax on the property £3,546. The landlord is £546 down on a property that made money. Nothing has gone wrong: that is the arithmetic working as designed.

The reduction is the lower of three

It is 20 per cent of the lowest of your finance costs, your property profits, and your adjusted total income. Not 20 per cent of the interest. Where profits cap it, the unrelieved interest carries forward: £26,000 of interest against £20,000 of profits gives a £4,000 reduction and carries £6,000 into next year.

> A BASIC RATE LANDLORD PAYS NOTHING EXTRA
>
> At basic rate, 20 per cent of the interest is exactly what the deduction was worth. Section 24 costs them nothing. It is a tax on higher rate landlords with mortgages, and the more you borrow the worse it is.

4. Personally or through a company

A company still deducts its interest in full. That is the whole of the argument.

	Amount
Personally, tax on the property	£3,946
In a company, corporation tax on £5,000	£950
The company saves, a year	**£2,996**

Then set against it what getting there costs. Moving an existing £300,000 property into a company is a sale to the company: stamp duty at the surcharge rate of £20,000, and capital gains tax on the transfer, £13,364 on a £60,000 gain. That is £33,364 to save £2,996 a year, so about eleven years before you are ahead.

> **AND THE COMPANY MONEY IS NOT YOURS YET**
>
> Corporation tax is the first layer. Dividend tax follows on anything you take out. A company wins outright only on profit you leave in it, which is why it suits someone building a portfolio and not someone living on the rent.

5. Buying: stamp duty and the surcharge

Five points on every band, including the one that used to be free.

Price	As a home	As a rental
£150,000	£500	£8,000
£250,000	£2,500	£15,000
£300,000	£5,000	£20,000
£500,000	£15,000	£40,000

The surcharge applies to each band, so the first £125,000 stops being charged at nil and becomes 5 per cent. It rose from three points to five on 1 April 2025. It does not apply below £40,000, and it can be reclaimed if you were replacing your only or main home and the old one sells within 36 months.

> ENGLAND AND NORTHERN IRELAND ONLY
>
> Scotland charges LBTT and Wales charges LTT. Both are devolved, both have their own additional dwelling supplement, and neither is the table above.

6. Repairs against improvements

A repair comes off this year's rent. An improvement waits until you sell.

Repair, deduct now	Improvement, add to base cost
Replacing a boiler	Adding central heating where none was
A new kitchen in the same place	An extension
Single glazing to double glazing	Converting the loft
Repainting	A second bathroom
Fixing a roof	Making a derelict property lettable

The test is whether you are restoring what was there or adding something new. The modern equivalent still counts as a repair: you cannot buy single glazing any more, so replacing it with double glazing is not an improvement. Work needed to make a property lettable at the point you bought it is capital, because the price reflected its condition.

> **IMPROVEMENTS ARE RELIEVED LATER AND MORE CHEAPLY**
>
> They reduce the gain at 18 or 24 per cent, possibly decades away, instead of reducing income at your marginal rate now. Keep the invoices: the wording a builder uses is what an enquiry reads.

7. Selling: capital gains and sixty days

Its own return, its own deadline, and an exemption that has shrunk to a quarter of what it was.

	Amount
Annual exempt amount	£3,000
Basic rate, on the unused band only	18 per cent
Higher and additional rate	24 per cent
Report and pay within	60 days of completion

Only the part of the gain that fits in your unused basic rate band is taxed at 18. For most landlords with a salary that is none of it, so the whole gain is at 24. The exemption was £12,300 in 2022/23, so any figure you worked out a few years ago is badly out.

> **THE SIXTY DAYS RUNS FROM COMPLETION**
>
> Not from exchange, and not to the tax return. The return and the payment are both due within 60 days, and it is a separate account from Self Assessment that takes time to set up.

8. Making Tax Digital for landlords

Property income counts, and it counts gross.

From	Qualifying income over	Measured on
6 April 2026	£50,000	2024/25
6 April 2027	£30,000	2025/26
6 April 2028	£20,000	2026/27

> THE RESTRICTION MAKES PROFIT LOOK SMALL AND IT DOES NOT HELP
>
> Qualifying income is gross rent before any expense and before the finance cost restriction. A landlord taking £60,000 with £45,000 of interest has very little profit and is in scope from April 2026 all the same.

Jointly owned property counts by share, so a couple owning a £60,000 portfolio equally have £30,000 each. Married couples are taxed 50:50 by default whatever the deeds say, unless a Form 17 election and the beneficial ownership say otherwise.

9. What changes in April 2027

Property income gets its own rates, two points above the main ones at every band.

Band	Now	From 6 April 2027
Basic	20 per cent	22 per cent
Higher	40 per cent	42 per cent
Additional	45 per cent	47 per cent

The reason given is the one in chapter one: property income carries no National Insurance, so it has been taxed more lightly than work. The new rates narrow that gap.

> **ON THE WORKED LANDLORD IT IS £400 A YEAR**
>
> The same £5,000 of real profit costs £3,946 this year and £4,346 from April 2027. Small in isolation, and it arrives on top of a bill that already took most of the profit.

10. The landlord's year, in order

The whole thing on one page.

When	What
Every rent payment	Move the tax reserve across that day
Monthly	Record and categorise, chase anything late
7 Aug, 7 Nov, 7 Feb, 7 May	Quarterly updates, once in scope
Before 5 April	Repairs, bad debts, pension, while they count
31 January	Balancing payment and first payment on account
31 July	Second payment on account
Within 60 days of any sale	The capital gains return
Annually	Gas certificate, and the rate review

Where to go next

The Section 24 Calculator runs chapter three on your own figures. The Personal or Company Calculator runs chapter four, including the years to break even. The Property Income Tax Calculator shows chapter nine before it arrives.

Every calculator and workbook mentioned in this book is free on zazentax.com, with no email form. They use the same figures and the same rates as the chapters here.

Zazen Tax

Accountants for landlords. If you would rather someone else did this, that is what we are for.

zazentax.com/contact

General information, not advice for your circumstances. Rates are 2026/27 for the UK and change from time to time. Regulatory items are England unless stated.