

Business expenses if you don't charge a market rent

There are several reasons why property owners might decide to charge a rent below market value or even rent for free. It has been common throughout the pandemic that landlords reduce the rent charged.

However, this means that the owner will have more limitations on what expenses they can claim.

What is a 'market rent'?

HMRC do not have the power to tell a landlord how much to charge for rent. However, HMRC may ask for written confirmation if they believe you are claiming for expenses that you are not eligible to claim.

Although there are no set amounts, a standard rent amount can easily be found on rental websites such as Zoopla and Rightmove.

If HMRC request confirmation of market rent, it will need to be signed by a local letting agency.

Wholly and exclusively rule

When determining which expenses you can deduct, it is important to first check if the expense is used wholly and exclusively for business purposes. If so, then it can likely be deducted from the rent you charge the tenant.

If you rent a property for less than the market rate, you can only deduct expenses up to the value of the rent received.

Dual-purpose expenditure

In most cases, expenses that are not wholly and exclusively for business use cannot be deducted. However, there are a few exceptions such as electricity, in which you can claim the business proportion of the expense.

Rent free

It is very common, especially during Covid, for property owners to rent a room or property to relatives or tenants rent free. However, this comes with risks. Since there is no rent to offset the expenses, all expenses will be fully incurred by the landlord.

Relatives & friends

When you rent to relatives, it is unlikely that the expenses of your property are incurred wholly and exclusively for business purposes. In this case, you will not be able to claim the expenses against the rent received.

A relative or friend can 'house sit' your property between lettings as long as your property is available to let and you are actively seeking tenants. If you meet these conditions, you can deduct expenditure in the normal way.

Timing of expenses

When a property is likely to be occupied rent free or at below-market rates, the landlord should seek to incur expenses related to their property while it is being let at a market rate. This will protect them from losing out on any potential deductions.