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HMOs & Multi-Lets... Tax Aspects

Many residential investors are turning to HMOs and Multi-Lets as an alternative to the traditional single-let approach to long-term property investment. Specialist property accountant **Stephen Fay** ACA runs through how HMOs and Multi-Lets differ tax-wise to single-let property.

What is a HMO or Multi-Let? 'Multi-Let' is a general term used to describe a property that is let out to more than one household, whether these are students, professionals, or singles. A Multi-Let may, or may not, be classed as a 'HMO', depending on the number of bedrooms, stories in the building, and the tenants themselves (the definition varies between local authorities).

Why should I invest in a HMO or Multi-Let?
Many HMO & Multi-Let investors make fantastic rental returns on their property, compared to a typical single-let rental income. I often see gross rental yields of 12-15% achieved, with some investors hitting 20+% (typical single-let property yields around 6-7%). However, there are additional costs to bear with HMOs and Multi-Lets, (covered later), but the ideal financial model for HMOs is that the extra income far exceeds the extra costs incurred. As in any business, 'think net profit'.

Operating just one or two HMOs can generate as much rental profit as a much larger single-let portfolio. However, potential capital appreciation can sometimes be less than in a non-HMO property.

Tax considerations when setting up a HMO
HMOs & Multi-Lets often need refurbishment and structural work to ensure the property has the optimal number of rental units (bedrooms), and is of the right standard for the local market.

Fortunately, most spending on HMOs is a revenue cost and income tax-deductible. Capital items (added to the purchase price) are usually easily identifiable e.g. adding an extension, knocking down walls or building an annex. Where capital and revenue work is done simultaneously a reasonable and fair apportionment is allowed.

It helps to have good records of spending summarised and receipted. Photographs are great, as are tradesmen invoices and a property survey report. Build a file of evidence to support the income tax deduction (your accountant should have templates and guidance on this).

Income tax aspects of HMOs & Multi-Lets
For tax purposes HMOs and Multi-Lets are treated as any other rental property. This applies regardless of whether BTL or commercial financing has been used. Rental income and expenses are treated in the same way, and profits are taxed as investment income (or losses carried forward).

One difference between HMOs and single-let properties is the potential to claim 'Plant & Machinery Capital Allowances', which is income tax relief on qualifying items within the communal areas of HMOs & Multi-Lets.

Unlike normal rental losses, which are only rolled forward for offset against future rental profits, capital allowances can be offset against non-property income to generate tax rebates which can run into thousands of pounds.

Qualifying assets need to be identified, valued and documented, to enable a claim to be made - contact me for further details as we have preferential rates with expert surveyors who will provide a report in the HMRC-approved format.

As a property rental business is treated as a single business for tax purposes, the tax losses made in current and prior years can be used to reduce the tax bill on HMO rental profits. It is often a good strategy for investors with large losses built-up to operate a HMO or two to use up those losses and generate a tax-free income.

Capital Gains Tax aspects of HMOs & Multi-Lets
Again, as with the income tax regime, the CGT position for HMOs and Multi-Lets is the same as for single-let properties. Although it is usually the case that there is a much higher level of capital spend to be deducted as properties are often extended and improved. However many investors don't want to sell such an income-generating asset so CGT is not an issue!

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Summary - are HMOs & Multi-Lets worth it?
Well-selected and well-managed HMOs & Multi-Lets in areas of good rental demand are capable of generating significant rental profits. Although there are extra costs and a perceived 'hassle-factor' to consider, HMOs and Multi-Lets offer investors the possibility of generating a good income NOW, as well as the future capital appreciation that the general market should provide over time. PIN