Lloyd's Financial Q&A Column

Grantham-based tax and accountancy specialist Lloyd Stubbs gives advice on financial matters to small businesses

What is the Rent A Room Scheme?

Q: I am looking for ways to earn more money. I have a spare room in my house and both my wife and I have considered letting this out. Is it true I can do this tax-free?

A: The Rent A Room scheme lets you earn £7,500 tax-free when renting out a furnished room in your home. Under the Rent A Room scheme, a taxpayer can be exempt from income tax on profits received from renting part of their only or main home if the gross receipts (that is, before expenses) are £7,500 or less.

If the receipts exceed the £7,500 exemption limit, you can choose to be taxed on the gross receipts above the exemption as an alternative to preparing the standard profit and loss account. This may, in some cases, be more favourable if the rents only slightly exceed the exemption limit to save on administration costs of preparing the accounts.

Assuming you own the property with your wife, you cannot both benefit from the exemption limit of £7,500. If more than one person is letting a room in the same home, the limit is reduced to £3,750 for each person receiving rental income.

The 'Rent A Room' scheme only applies to ordinary lettings of living accommodation in the taxpayer's own home. You cannot apply it where the rooms(s) are let as an office or for other business purposes.

You should ensure that when claiming 'Rent A Room' you calculate that this is more beneficial than establishing your profit after expenses, as you have the choice of which method to use.

How do I upsell in my business?

Q: My business is going well; I have a good local reputation and a loyal customer base. To grow my business, I am looking at sales strategies, would you recommend upselling?

A: Upselling is where businesses offer more expensive or premium products or services to customers with the aim of increasing income. As you have a loyal customer base, these will be the perfect audience for you to upsell to. An example for a bookseller would be to offer a hardbound or signed edition of the book which sells at a higher price.

Another option is cross-selling, which is selling related items that complement a customer's purchase. For example, if you sell books, you could offer customers a bookmark or reading light as a complimentary purchase or even recommend the next book by the same author or in the same genre.

You could look at using upselling and cross-selling together to maximise success. Selling can be a soft approach; you do not want to put customers off with a hard-selling approach.

Understanding your customers is key to knowing what they will appreciate. Listening to your customers and any feedback is essential for this.

There are lots of techniques and strategies to consider, which will depend on your business and what you sell. We recommend researching sales strategies to boost your income and profits.

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