

Scottish Tax Guide for Buy-to-Let & Holiday Let Landlords (2026)

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This guide explains the key taxes and planning opportunities for residential buy-to-let and holiday let landlords in Scotland. Rental profits are taxed using Scottish Income Tax bands, which differ from the rest of the UK. The guide covers income tax, reliefs, mortgage interest, Capital Gains Tax (CGT), Land and Buildings Transaction Tax (LBTT), and practical tax strategies.

1. Scottish Income Tax on Rental Profits

Rental profit equals rental income less allowable expenses such as repairs, insurance, letting agent fees, utilities paid by the landlord, and replacement of domestic items. The resulting profit is added to your other income (salary, pension, dividends, etc.) and taxed using Scottish Income Tax rates.

Higher and additional rate taxpayers generally face greater tax exposure than landlords in other parts of the UK due to Scotland's distinct tax bands.

2. Property Allowance

Individuals with small amounts of property income may qualify for the £1,000 Property Allowance. Where total property income does not exceed £1,000 in a tax year, no tax may be due. If income exceeds £1,000, you can either deduct actual expenses or claim the allowance, whichever gives the better result. The allowance is usually not beneficial where actual expenses are substantial.

3. Allowable Expenses and Reliefs

Typical deductible expenses include:

- Repairs and maintenance (not capital improvements)
- Letting and management fees
- Buildings and landlord insurance
- Advertising costs
- Accountant and professional fees
- Ground rent and service charges
- Utilities and council tax paid by the landlord
- Replacement of domestic items such as appliances and furniture

Capital improvements, such as extensions and structural enhancements, are not deducted from rental income but may reduce CGT when the property is sold.

4. Mortgage Interest Relief

Mortgage interest on residential lettings is no longer fully deductible. Instead, landlords receive a tax reduction equal to 20% of eligible finance costs.

This can significantly increase taxable income for higher and additional rate taxpayers, especially where borrowing is substantial.

5. Holiday Lets

Short-term and holiday lets remain taxable as property income. Special rules may apply depending on the nature of the letting and services provided. Accurate record-keeping is essential to determine the correct tax treatment and allowable expenses.

6. Capital Gains Tax (CGT)

CGT may arise when you sell or gift a property that is not your main residence. The taxable gain is broadly:

Sale proceeds
less purchase cost
less acquisition and disposal costs
less qualifying capital improvements

Residential property gains are taxed at rates that depend on your income and the rules in force for the relevant tax year. Reporting and payment deadlines can apply shortly after completion, so advance planning is important.

7. Land and Buildings Transaction Tax (LBTT)

LBTT is Scotland's property purchase tax. Additional Dwelling Supplement (ADS) usually applies to purchases of second homes and investment properties, increasing the upfront acquisition cost.

Careful ownership and timing strategies may help reduce unnecessary tax exposure.

8. Record-Keeping Requirements

Maintain:

- Tenancy agreements
- Mortgage statements
- Invoices and receipts
- Bank statements
- Purchase and sale documents
- Mileage and travel logs (where relevant)

Good records support accurate returns and maximise deductible expenses.

9. Tax Planning Strategies

- Review ownership between spouses or civil partners to utilise lower tax bands.
- Consider timing of repairs and improvements.
- Monitor mortgage interest and refinancing impacts.
- Plan disposals to use annual exemptions and lower tax bands where available.
- Evaluate whether incorporation is appropriate (after full advice).
- Keep detailed records throughout the year.

10. How Omer Adam Scotland Can Help

Our specialist team supports Scottish landlords with:

- Annual tax returns
- Rental accounts preparation
- CGT calculations and reporting
- Ownership and succession planning
- Tax-efficient structuring
- HMRC enquiries and compliance support

Disclaimer: This guide is for general information only and does not constitute personalised tax advice. Tax legislation changes frequently, and individual circumstances vary.