



Tax changes affecting buy-to-let properties



As you may be aware the Government has recently announced changes for holding a rental property as an individual, or in a limited company, these changes will need to be carefully considered by landlords.

These changes impact:

- allowable expenses
- stamp duty
- interest costs
- treatment of future gains.

Wear and tear allowance (Furnished Lets)

This has been abolished for individuals from 6 April 2016 and for companies from 1 April 2016. In its place landlords are able to claim as an allowable expense the actual cost of replacing furniture (such as tables, chairs and beds) and fittings (such as carpets and curtains).

Interest payable on loans relating to the business

At present, landlords who receive rental income on residential properties in the UK and elsewhere are entitled to full tax relief for any finance costs incurred in connection with their property letting business.

The Chancellor has announced that the amount of income tax relief landlords can get on residential property finance costs (such as mortgage interest, interest on loans to buy furnishings and fees incurred taking out or repaying mortgages or loans) will be restricted to the basic rate of tax.

To give landlords time to adjust, the change will be phased in gradually over 4 years from 6 April 2017.

This change will not affect companies renting out properties, or individuals renting out commercial properties or furnished holiday lettings.

Landlords will no longer be able to deduct all of their finance costs from their property income to arrive at their property profits. They will instead receive a basic rate reduction from their income tax liability for their finance costs.

Landlords will be able to obtain relief as follows:

	Finance cost allowed in full	Finance cost allowed at basic rate
Year to 5 April 2016	100%	0%
Year to 5 April 2017	100%	0%
Year to 5 April 2018	75%	25%
Year to 5 April 2019	50%	50%
Year to 5 April 2020	25%	75%
Year to 5 April 2021	0%	100%

Rent a Room limit increased

The current £4,250 limit for tax free rental income from lodgers is to be increased to £7,500 from 6 April 2016. The relief is only available where individuals rent out a room in their main residence and the allowance includes heating and others services provided to the lodger.

Capital gains

In the March 2016 Budget it was announced that the capital gains tax rates for individuals would be reduced. However this reduction would not apply to sales of residential property. (Capital Gains Tax on residential property does not apply to your main home, only to additional properties, for example a property that you let out).

	Basic Rate Taxpayer	Higher or Additional Rate Taxpayer
Rate on gains from residential property	18%	28%
Rate on gains from other assets	10%	20%

Individuals are entitled to an annual tax-free allowance which is £11,100 for the year from 6 April 2016. It would seem that individuals selling shares in companies which own residential companies would be chargeable to capital gains tax at the lower rates shown above.

Companies pay corporation tax on their gains at the corporation tax rate (which for the year from 1 April 2016 is 20%). Companies can claim indexation allowance to reduce the taxable gain whereas individuals cannot.

Stamp duty payable on purchase of property

An additional 3% stamp duty land tax is payable for properties purchased on or after 1 April 2016. This is to apply to both individuals and limited companies. There are detailed rules for individuals and for purchases through limited companies.