FINANCIAL

Buy to Let & Landlord Taxation

This guide will provide insightful information about the new tax treatment for Buy to Lets and what changes you can expect over the next few years.

The Government made changes to buy-to-let mortgage interest tax relief which will reduce the allowance to 20% by 2020. From 2017 HMRC incrementally started to restrict tax relief for buy-to-let mortgage interest.

The amount on which an owner can claim relief is as follows:

- 75% in 2017–18
- 50% in 2018–19
- 25% in 2019–20
- 0% in 2020–21 onwards

In its place, individuals will be able to claim a tax reduction, which will be calculated as 20% of the lower of:

- Finance costs not offset against income in the tax year
- Total taxable profits of the property business in the tax year*
- Total income (excluding that from dividends and savings) that exceeds the personal allowance and blind person's allowance (if applicable) in the tax year

Source: www.gov.uk

* If this is the figure used, any excess mortgage interest may be carried forward to the following year

So, the old system calculated tax like this:

- £10,000 rental income
- £5,000 mortgage interest costs
- £1,000 other costs
- = £4,000 profit

The profit is added to the owner's normal income and taxed accordingly so a basic rate tax payer would pay 20% (£800) and a high rate tax payer, 40% (£1,600)

Whereas the new system calculates it like this:

- £10,000 rental income
- £5,000 mortgage interest costs – not now deducted
- £1,000 other costs
- = £9,000 profit

However, **everyone** will get to claim a basic rate deduction of 20% of that £5,000 mortgage interest cost. That's £1,000, so the final position is as follows:

Basic rate taxpayer:

- 20% tax on £9,000 profit = £1,800
- Minus £1,000 deduction (20% of £5,000 interest cost)
- = £800 tax to pay (no change)

Higher rate taxpayer:

- 40% tax on £9,000 profit = £3,600
- Minus £1,000 deduction (20% of £5,000 interest cost)
- = £2,600 tax to pay (an increase of £1,000)

The ‘other costs’ allowable include:

- Accountancy
- Agency and solicitor's fees
- Council tax payments
- General business expenditures (such as advertising, stationery, telephone calls and travel)
- Ground rent
- Landlord’s insurance premiums
- Maintenance and general repairs
- Service charges and utility bills