PROPERTY TAX UPDATE

A quick overview of the key tax issues that landlords and property investors need to bear in mind.

Recent changes in the tax regime brought about by a government largely to increase tax yields are affecting landlords and investors in property beyond their own homes.

Are you prepared for the changing environment for property investment?

The Key Issues

- Restriction of Mortgage Interest Tax Relief.
- Considering running your buy-to-let business as a Limited Company.
- Additional Stamp Duty on Investment Properties.
- Capital Gains Tax on Residential Property Disposal
- Wear and Tear Allowance abolished.

Explore the basics of why you need to be aware of these issues in this factsheet.

Get our full guide to explore more detail and potential strategies to help beat these tax increases. Available online now in our free resource library.

Mortgage Interest Relief

Your income from investment property may be substantially affected by the reduction in tax relief available for finance charges. This in effect will increase your tax bill.

From 6 April 2020 landlords affected will no longer be able to deduct their finance costs from their property income. Another consequence is that your rental income will increase for tax purposes, as the finance costs are added back in. This could potentially push you into a higher tax band and trigger losses of other benefits and allowances.

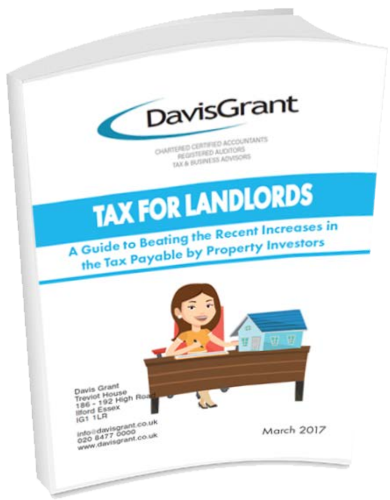
Tapered Reduction

New measures will gradually restrict your tax relief to the basic rate of income tax.

2017-18
Higher Rate Deductions restricted to 75%
2018-19
Higher Rate Deductions restricted to 50%
2019-20
Higher Rate Deductions restricted to 25%
2020+
Higher Rate Deductions abolished 0%

Instead you will receive a basic rate deduction from your income tax liability.

Example
Let's say that your only income for 2015-16 was £120,000 from rents received before deductions for mortgage interest of £80,000.
Your income tax liability would have been £5,880. Recalculated with the tax relief as it will be in 2020 your tax bill would increase to £25,043!



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Stamp Duty Land Tax - Additional 3%

Since April 2016 an additional Stamp Duty charge on additional residential properties is made. If you buy a second property on top of your main residence then the charge will be payable. The only exception is if the property is replacing your main home.

Band	Standard Rate	Adjusted Rate
Up to £125,000	0%	**3%**
£125,001 - £250,000	2%	**5%**
£250,001 - £925,000	5%	**8%**
£925,001 - £1.5m	10%	**13%**
over £1.5m	12%	**15%**

CGT – Residential Property Disposal

Whilst the tax rate for disposals of residential property remains unchanged, Capital Gains Tax on most other gains has been reduced.

Taxable Gains	Standard Rate	Residential Property Disposal Rate
within Basic Rate Allowance	10%	**18%**
otherwise	20%	**28%**

- This is a clear 8% penalty for residential property owners.
- As property gains can be significant the 28% rate is often the most relevant.
- The majority of homeowners are unaffected by this, as principle private residences are effectively exempt.

Replacement of Domestic Items Relief

The 10% 'Wear and Tear Allowance' on letting income was abolished on the 5th of April 2016. This has been replaced with a 'Replacement of Domestic Items' relief applied based on your renewal of furnishings for the tenants use.

All Landlords of residential property can now claim a deduction for expenditure on...

- Items provided for the tenants use.
- Replacements only, on a like for like basis.
- Initial expenditure is not included.
- No distinction is now drawn between furnished and unfurnished properties.

Items Included:

- movable furniture or furnishings, such as beds,
- televisions,
- fridges and freezers,
- carpets and floor coverings,
- curtains,
- linen,
- crockery or cutlery.

Fixtures such as baths, fitted kitchen units and boilers, that are not normally removed by the owner when the property is sold are not included. This is because the replacement cost is already a deductible expense as a property repair

Should I run my buy-to-let business through a limited company?

There are clear advantages as companies are not affected by the reduction of tax relief for finance costs. If you can afford to retain profits in the company the only tax payable is corporation tax.

Potential downsides include increased costs to administer the company and exposure to personal tax and stamp duty.

We would need to thoroughly examine the tax risks and strategies open to you.

Therefore we strongly recommend you take personal advice from us before proceeding.

Getting advice

At Davis Grant we have a track record of dealing with this specialised areas of tax planning. Our team of tax experts are waiting to hear from you.

We can help you get to the bottom of this area of tax and ensure you get the best result both now and in the future.

Our team is waiting to hear from you

Call 020 8477 0000