

Buy to Let Tax Changes Factsheet

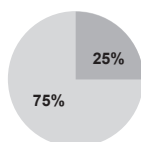
Owning and renting property has an impact on your tax position. Whilst we can help you find the right mortgage for your Buy to Let properties you should seek independent tax advice.

Each landlord will have different circumstances. Rental income, mortgage repayments, non-property related earnings, and any benefits you receive as well as whether property is held individually, jointly or in a company structure all impact your tax position.

Tax relief on interest costs

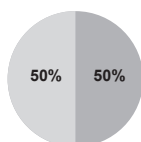
Previously, landlords could deduct all finance costs from their rental income, with net profits taxed at the landlord's marginal rate. From April 2017 and phased in over a four year period, tax relief for finance costs will be restricted to a basic rate tax credit, currently equivalent to 20%.

2017/18



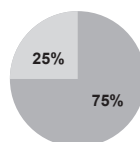
75% of finance costs can be deducted at higher rate, with the remaining 25% being available as a basic rate tax reduction

2018/19



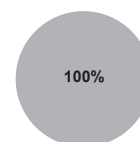
50% of finance costs can be deducted at higher rate, with the remaining 50% being available as a basic rate tax reduction

2019/20



25% of finance costs can be deducted at higher rate, with the remaining 75% being available as a basic rate tax reduction

2020/21



All finance costs will be given as a basic rate tax deduction

An example of how the changes might impact

John is an individual with self-employment income of £35,000 and rental income from residential property of £18,000 per annum. His mortgage interest is £8,000 per year.

John becomes a higher rate taxpayer because of the change as his total income is more than the higher rate threshold of £45,000. John has an additional £1,100 tax to pay in tax year 2020/21. If John or his partner is claiming child benefit, he may have to pay a High Income Child Benefit Charge because his total income is now over £50,000.

« Before restriction (2016 to 2017)	» After restriction (2020 to 2021) based on the 2018-2019 tax rates
Self-employment income £35,000	Self-employment income £35,000
Property income calculation	Property income calculation
• Rental income £18,000	• Rental income £18,000
• Deduct finance costs -£8,000	• Deduct other allowable expenses -£2,000
• Deduct other allowable expenses -£2,000	• Finance costs are no longer deducted 0
Property Income £8,000	Property Income £16,000
Total Taxable Income £43,000	Total Taxable Income £51,000
Income Tax calculation	Income Tax calculation
£11,000 x 0% £0	£11,850 x 0% £0
£32,000 x 20% £6,400	£34,500 x 20% £6,900
£0 x 40% = £0	£4,650 x 40% = £1,860
	Less 20% tax reduction for finance costs (£8,000 x 20%) -£1,600
Final Income Tax £6,400	Final Income Tax £7,160

Wear and tear

From April 2016, the "wear and tear" allowance, where a landlord could claim 10% of their rent as tax relief for wear and tear, was replaced by a system that only allows landlords to reclaim the actual cost of furnishings that have been replaced in the tax year. You also have to provide receipts showing what was replaced.

Stamp Duty

You must pay Stamp Duty Land Tax (SDLT) if you buy a property or land over £125,000 for residential properties. SDLT thresholds for Buy to Let investments and second homes changed in April 2016.

Purchase price	Residential property SDLT rates	SDLT rates for additional properties
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%

The rates apply to each portion of the purchase price. Different rates apply to different pricing bands for properties in Wales and Scotland.

If you fail to keep up with payments on your mortgage a 'receiver of rent' may be appointed and/or your rental property may be repossessed.

This information does not constitute tax advice. For more details on how this will affect your circumstance you should consult with an independent tax adviser.

HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.