

TAX CHANGES FOR BUY-TO-LET PROPERTY OWNERS

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Taxation, Taxation, Taxation

Landlords view of New Property Taxes

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Rent a Room

- Tax free limit rising to £7,500pa – ½ each?
- Taxed on excess
- Can use actual
- Not for separated residence
- Can also apply to FHL and B & B!



Wear and tear vs renewals

- Furnished and part furnished properties
- 10% allowance scrapped from 6 April 2016
- Replaced with allowance for renewals
- Not for initial expenditure
- Buy from vendor?
- Hire instead?



- **Extra 3%**

- Exemption < £40,000
- No relief for large scale investors
- Spouses
- Joint purchasers
- Main residence 36 months – replacing only!
- Includes non UK properties
- And Inherited properties (>50%)
- Multiple dwelling relief – plus 3%
- Additional cost to factor in to calculations



- Stamp Duty Land Tax – Non residential
- Now progressive not slab
- Rates higher
- £150,000 - £250,000 = 2%
- £250,000+ = 5%
- Mixed use - shop and flat
- 6+ units



- Capital Gains Tax Rates
- Basic rate band from 18% to 10%
- Higher rate from 28% to 20%
- Lowest in my time!
- **Not** for residential property
- But sale of company? (cost)
- Mixed use apportionment



Loan Interest relief!!!!!!

- Restricted to basic rate tax deduction
- Will push into higher rates (use spouse?)
- No longer deducted from rental income
- From 6 April 2017
- Phased in to 2020
- Does not apply to commercial or FHL
- Knock on effect – eg child benefit



Loan Interest relief

- How will it be phased in?



- 2017/18 – 75% allowed 25% by BR deduction
- 2018/19 – 50% allowed 50% by BR deduction
- 2019/20 – 25% allowed 75% by BR deduction
- 2020/21 – 0% allowed 100% by BR deduction

Loan Interest relief

How will it be basic rate
deduction be applied?



20% of the lower of:

- Finance costs not deducted (previous slide)
- Current year property profits
- Total income over personal allowance
- Carried forward if unused against property profits

Loan Interest relief

Example – Basic rate currently (worst hit pushes HR)

Today		2020/21	
Rental Income	75000	Rental Income	75000
Costs	5000	Costs	5000
Mortgage Interest	35000	Mortgage Interest	0
Net taxable Profit	35000	Net taxable Profit	70000
Tax at 20%	4800	Tax @ 20%	6400
Tax @ 40%	0	Tax @ 40%	10800
Loan Relief	0	Loan Relief	7000
Effective Rate of Tax	13.7%	Effective Rate of Tax	29.1%

Loan Interest relief

Example – Higher rate currently

Today		2020/21	
Rental Income	100000	Rental Income	100000
Costs	5000	Costs	5000
Mortgage Interest	35000	Mortgage Interest	0
Net taxable Profit	60000	Net taxable Profit	95000
Tax at 20%	6400	Tax @ 20%	6400
Tax @ 40%	6800	Tax @ 40%	20800
Loan Relief	0	Loan Relief	7000
Effective Rate of Tax	22.0%	Effective Rate of Tax	33.7%

Company Structure

- Restriction individuals only
- Depends on strategy e.g long term
- Double CGT on sale – indexation but no annu
- Dividend tax rate (only if cash withdrawn)
- Dependent on ability to finance and cost of
- Possibly SDLT and CGT on market value?



Other changes

- £1,000 allowance for property income
- Non UK residents
 - Now liable for CGT on UK residential property
 - Gain from 5 April 2015 only
 - Tax due within 30 days (proposed for UK residents!)
- Judicial review of clause 24