

Guidance on Buy To Let tax changes, April 2017

Summary of new tax changes for residential landlords and property investors. For more information, contact our friendly team.

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Tax free annual property allowance

From 1st April 2017, there is a £1,000 tax-free annual allowance for property income.

Where property income exceeds £1,000, individuals can choose to deduct £1,000 from their taxable profits instead of calculating exact expenses. This simplification will be useful for those whose expenses are less than £1,000 (an example might be occasional B&B hosts), though it will remain beneficial to continue to deduct exact expenses for those whose expenses are above £1,000.

Renting out a room

Those who rent out furnished rooms in their house can earn up to £7,500 a year tax-free.

Individuals who rent out furnished rooms in their home (e.g. resident landlords, people who run a guesthouse or B&B) can do this without reporting obligations under the rent a room scheme. Where two people own a property, this allowance is split between them, meaning each person can claim a maximum of £3,750 in tax relief. No expenses can be claimed so while this may suit some well, it may be worth reviewing if they would be better off completing full expenses. Talk to us to discuss your options.

Property Income and Tax

Rent exceeding the £7,500 threshold has to be reported to HMRC via self-assessment.

At this stage, a landlord can choose to use the scheme. Those that opt into the scheme pay tax on their gross income minus the £7,500 allowance.



Reduction of Mortgage Interest Relief

Landlords can no longer offset all their mortgage interest from their rental income.

Instead, this mortgage interest tax relief will gradually taper out over the next 4 years so that by 2020/21, the only relief for higher rate tax payers will be at 20%.

2017/18: 75% of finance costs, 25% as basic rate tax reduction

2018/19: 50% of finance costs, 50% as basic rate reduction

2019/20: 25% of finance costs, 75% as basic rate reduction

2020/21: all finance costs will be given as basic rate tax reduction

This change was aimed at reducing the amount of tax relief for higher rate tax payers. However, some basic rate tax payers will also be affected by this because interest payments are excluded from the new way of calculating total income received in the year, which could push a basic rate taxpayer into a higher tax band.

Limited companies will not be affected by the changes to mortgage interest tax relief. There will, however, be other tax costs associated with this so we would recommend contacting us to discuss this option.



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Selling your rental property

If you have a rental property it is more than likely this is a second property.

The property you live in is your Principle Private Residence (PPR). If you sell your PPR, you usually won't have to pay any Capital Gains Tax (CGT). If you sell your rental property, you will need to report this on your Tax Return in the year you sold the property for CGT purposes. This will need to be reported even if you made a loss. The CGT tax rates for individuals for residential property and carried interest are 18% and 28%

There are various reliefs that can reduce the Capital Gains Tax liability:

- Annual exemption - this allows you to make a certain amount of gains each year before you have to pay tax. Each individual has £11,300 (2017/18).
- PPR relief - if the property was your PPR at some point you can reduce the gain by the number of years you lived in the property. The final 18 months always qualify for the relief if it was your PPR at some stage. This applies even if you weren't living there for the final 18 months.
- Letting relief - if you lived in the property at some point you can also receive lettings relief. This is the lower of £40k, the amount of PPR relief due and the amount you made on the let part of the property.

Losses

In general, losses can be offset against future profits from the same rental business.

This means it is possible to offset expenses from one property against another. Separate rules apply to furnished holiday lettings and overseas properties. Talk to us to find out more.



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Other new relief restrictions

Wear and Tear Allowance

Previously, furnished residential lets benefited from a 10% reduction to cover wear and tear. This has been removed and from April 2016, tax relief costs can only be claimed on actual replacement costs, which will need to be proven with receipts. Any capital expenditure such as renovations beyond wear and tear repairs are also not allowable expenses. (Renovations can, however, go against any capital gains on sale of the property.)

Allowable Expenses Include:

- repairs and maintenance to the property (but not improvements)
- utility bills (e.g. gas, water and electricity)
- letting agents' and accountants' fees
- legal fees for lets of a year or less, or for renewing a lease for less than 50 years
- buildings and contents insurance
- rent, ground rent, service charges
- council tax
- paid services (e.g. cleaning or gardening)
- other direct costs of letting the property, such as phone calls, stationery and advertising



Making Tax Digital (MTD)

**HMRC are moving all businesses onto Digital Tax Accounts (DTA).
This includes landlords with a rental income over £10k.**

This means that all businesses will be required to submit quarterly tax returns digitally to HMRC, advising of income and expenses.

As well as the quarterly submissions, businesses are also required to make a final submission 10 months after the end of the accounting period. This allows you to check prior submissions and include any additional allowances (e.g. capital allowances).

Your final tax liability will be calculated based on this final submission: the interim submissions will be used for guidance purposes only.

Contact us

If you would like to discuss any of these issues further please do not hesitate to contact us and we will be able to advise of the implications (if any) these changes will have for your business.

For landlords with rental income above **£85k**, MTD will come into effect from **5th April 2018**

For landlords with rental income above **£10k**, MTD will come into effect from **5th April 2019**



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