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May 2018

New rules for Landlords

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The property tax regime has been subject to some significant changes over recent years. Here we consider the latest tax rules affecting landlords.

Tax relief on landlord interest costs

Landlords of residential properties can no longer deduct all of their finance costs from property income. Instead, there is a basic rate reduction from the income tax liability. The new rules apply to costs such as mortgage interest, interest on loans to buy furnishings, and fees incurred when taking out or repaying loans or mortgages.

The restriction is being phased in over four years from 2017/18. For 2018/19, only 50% of finance costs are now fully allowable. Remaining finance costs for each year are given as a basic rate tax deduction, but this cannot be used to create a tax refund. Relief may be restricted further where the landlord's total property income, or total taxable income excluding savings and dividend income, is less than the finance costs incurred.

The changes could affect the level of income at which the High Income Child Benefit Charge or tapering of the personal allowance apply. The restrictions may push some basic rate taxpayers into higher rates of tax.
The interest relief restrictions do not apply if you run your business as a company, or operate furnished holiday lets (FHLs).

Repairs and renewals

HMRC will either treat repairs and renewals as revenue costs, which are generally allowable for income tax purposes, or as capital expenditure, which is not.

Tax relief on the replacement of an asset will generally only be available if the asset qualifies under the new rules for replacement of domestic items. Where a fixture in a property is replaced, the asset may be considered as the whole building, not the fixture: thus, replacing a fixture can be treated as a repair of the building. Careful planning is required in this area – contact us for more information.

Replacement of Domestic Items Relief

The Replacement of Domestic Items Relief now provides tax relief for domestic items (including furniture, appliances, curtains, carpets and crockery) bought for the sole use of the tenants in the let property, where the old item is no longer available. The initial cost of purchase is disallowed for tax purposes, but the full cost of replacement is allowed. Where the new item is an upgrade, relief will be restricted. The relief is available to all landlords, not just those letting out fully-furnished property.

Accounting via the cash basis

Profits and losses for unincorporated landlords are now calculated on the cash basis, unless a landlord opts out by making an election on the tax return, or has annual rental receipts in excess of £150,000.
Joint owners (excluding spouses and civil partners) are treated as carrying on their own property business. So if eligible for cash accounting, each individual owner makes their own decision. This could result in preparing two sets of accounts for the same business.

Stamp duty on additional properties

An additional 3% rate of stamp duty land tax (SDLT) (and its equivalents in Scotland and Wales) is payable on additional residential properties. Where the property replaces the main residence, the higher rate does not normally apply.

Capital gains tax (CGT) rates

Chargeable gains within the basic rate band are now taxed at 10% and non-basic rate band chargeable gains are taxed at 20%. However, these rates do not apply to gains on residential properties. CGT rates on chargeable gains on buy-to-let properties remain at 18% and 28% depending on where the gain sits within the relevant income tax band.

Commercial property has its own distinct tax rules. These include non-residential stamp duty rates and lower CGT rates.

We can advise on all areas of tax and property. Please contact us for more information.

Arram Berlyn Gardner

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