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FINANCIAL PLANNING

The Buy-to-Let Clampdown

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Unless you have been stuck on a desert island with no WiFi you can't have missed the press coverage of the changes to the taxation of rental income from buy-to-let (BTL) properties. These have come at a time when investing in property has never been more popular; with many seeing this as an attractive investment at a time of low interest rates and volatile stock markets. This includes a new generation of 'silver landlords' who are taking advantage of the relaxation of the rules to use their pension pots to invest in BTL properties.

So what are the changes and what is all the fuss about? There are four main areas where 'less favourable' tax changes have been introduced.

Stamp Duty: Anyone buying a second property that isn't their main residence which costs over £40,000 (pretty much any BTL property!) will pay an additional 3% stamp duty surcharge on top of the usual scale rates. The stamp duty has to be paid within 30 days but you can get a refund for the amount above the normal stamp duty rates if a new main residence is acquired before selling the previous one, providing it is sold within 3 years. Any refund must be claimed within 3 months of the sale of the previous main residence or within 12 months of the filing date of the return, whichever comes later and is made online.

This additional stamp duty charge can eat into even long term gains on property investments, with stamp duty on a £500,000 property now costing £30,000 or 6%.

Mortgage Interest Tax Relief: Up to 5 April 2017 landlords are able to claim tax relief on the mortgage interest paid at their marginal rate of tax – up to 45%. However, from April 2020 tax relief will only be claimed at the basic rate of tax, whatever rate the landlord pays. This is being phased in over 4 years to give landlords the opportunity to review their arrangements – they could perhaps switch mortgage deals, repay the mortgage, transfer property to a spouse who pays lower rates of tax (but watch stamp duty if the mortgage is over £40,000), or even consider investing in property in a limited company structure.

This is a significant change and will have a big impact on, in particular, additional rate taxpayers or those with high levels of borrowings. The Nationwide Building Society has estimated that a landlord with a 40% marginal tax rate with a £150,000 buy to let mortgage on a property worth £200,000, with a monthly rent of £800, would currently have a net profit of around £2,160 per annum. Under the new regime, this would plunge to £960.

Wear and Tear Allowance: This allowance was abolished on 5 April 2016. It enabled landlords with furnished property to claim a deduction against their rental income to reduce their taxable profits. Broadly the allowance was calculated as 10% of the gross rents, less some 'standing' charges. The wear and tear allowance was deducted from the rental income whether the landlord incurred any expenditure on maintaining the furnishings and furniture. From 6 April 2016, the landlord will now have to have incurred the expenditure on replacements (not the initial purchase) of furniture etc to claim a tax deduction.

Capital Gains Tax: In a surprise measure in the last Autumn statement, the then Chancellor, George Osborne, reduced capital gains tax rates from 18% (for basic rate tax payers) and 28% (for higher rate tax payers) to 10% and 20% respectively. But as a 'twist in the tail', the capital gains tax rates applying to properties not qualifying as the taxpayer's main residence remain at the 18% and 28% tax rates. Yet another blow for private landlords.

As with most clouds, there is a silver lining (of sorts). If you are a home owner looking to move on you may find prices becoming more affordable as the competition from BTL landlords decreases!

As usual, if you have any questions about these new measures, please let us know by contacting Martin Ruskin or Michelle Meredith on 01803 618310 or mruskin@wmfp.co.uk.

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