Bicknell Business Advisers Limited

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RESIDENTIAL PROPERTY: AN OVERVIEW OF KEY CHANGES

There have been a number of significant tax changes announced over recent months, Landlords need to take action now to try to protect their income and manage their tax liabilities.

Buy to Let Stamp Duty

Prop Value	Std Rate	B2L Rate
< £125,000	0%	3%
£125k to £250k	2%	5%
£250k to £925k	5%	8%
£925k to £1.5m	10%	13%
Over £1.5m	12%	15%

A 3% surcharge on stamp duty when some buy-to-let properties and second homes are bought will be levied from April 2016.

This means it will add £5,520 of tax to be paid when buying the average £184,000 buy-to-let property. The new charge would have hit 160,000 buyers if it had applied last year.

But, commercial property investors, with more than 15 properties, will be exempt from the new charges.

Stamp Duty on Selling Shares is 0.5% so why aren't more investors buying property into companies and then selling the shares in the company!

Mortgage Interest

Mortgage Interest offset against property income will be restricted

2017/18
75% of the interest can be claimed in full and 25% will get relief at 20%
2018/19
50% of the interest can be claimed in full and 50% will get relief at 20%
2019/20
25% of the interest can be claimed in full and 75% will get relief at 20%
2020/21
100% will get only 20% relief

For a 20% tax payer that's fine but for higher rate taxpayer it's a disaster that will lead to them paying a lot more tax

These rules will not apply to Companies, Companies will continue to claim full relief.

Capital Gains Tax

From April 2016, the higher rate of Capital Gains Tax will be cut from 28% to 20% and the basic rate from 18% to 10%.

There will be an additional 8% surcharge to be paid on residential property.

Capital Gains Tax on residential property does not apply to your main home, only to additional properties (for example a flat that you let out).

Wear & Tear

Landlords have been used to claiming 10% of rental income as a tax deductible wear and tear allowance, but that will change in April 2016.

The Wear and Tear Allowance for fully furnished properties will be replaced with a relief that enables all landlords of residential dwelling houses to deduct the costs they actually incur on replacing furnishings, appliances and kitchenware in the property.

The relief given will be for the cost of a like-for-like, or nearest modern equivalent, replacement asset, plus any costs incurred in disposing of, or less any proceeds received for, the asset being replaced.

Strategies

What could a Property Investor do to reduce the impact of these changes?

1. **Incorporation** – could you save money by incorporating your residential investments, would you qualify for incorporation tax relief
2. **Pension Contributions** – Pension Contributions currently receive tax relief at your rate of tax – 20% to 45% – so if you are a 40% tax payer you would need pay half the value of your 20% restricted interest into your pension to mitigate the extra tax
3. **Change of Use** – would your Buy to Let be able to be converted to a Furnished Holiday Let? or another type of commercial property on which the interest restriction won't apply
4. **Increasing the Rent** – Could you charge more to cover the extra taxes?
5. **Spouse Income Tax Elections** – If the property is jointly held HMRC assume a 50/50 split of the income but you can change that using Form 17 this might be useful if one of you is a basic rate taxpayer and the other a higher rate taxpayer
6. **Tax Deductible Expenses** – Many landlords overlook expenses at the moment but they could become a lot more important, for example, use of your home, motor expenses, computers, travel and subsistence, phone costs etc

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