M+A Partners

Buy-to-Let Property Tax

Factsheet 2017/18

The Government has introduced some fundamental changes to the taxation of residential Buy-to-Let property, which take effect on 6 April 2017. Some of the legislation has yet to be published in its final form, so this is our interpretation of the new rules as we understand them. We will issue further guidance regarding any significant changes. The rules around tax deductibility of expenditure on repairs and renewals of fixtures, equipment and furnishings in particular have changed, as well as those relating to the timing of income and expenditure that is accounted for in any particular tax year. These changes are summarised below, together with earlier announcements that are still in effect.

Our ‘Furnished Holiday Property Tax factsheet’ sets out the different rules applying to those properties.

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1 For the majority of landlords, from 6 April 2017 income and expenditure will be accounted for on the basis of actual receipts and payments in the tax year (referred to as the cash basis) rather than by allocating them to a specific time period (accruals basis).

For example, landlord’s insurance may renew on 6 July; on the accruals basis 9/12 of the renewal premium would be claimed in the tax year in which paid, for the period 6 July to next 5 April and 3/12 would be carried-forward to be claimed in the subsequent tax year. Under the cash basis, the full annual premium will be claimed as the actual payment in that year. This applies to all property rental businesses with gross income of less than £150,000.

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2 The cash basis will be the default basis, although it will be possible to elect for the accruals basis to apply, should that be in the landlord’s favour.

3 Under the cash basis the distinction between ‘capital’ and ‘revenue’ income and expenditure becomes largely irrelevant. All expenditure incurred wholly and exclusively for the purpose of the business will be tax deductible apart from that on:

+ Cars
+ Land and buildings
+ Intangible or financial assets
+ Assets with a useful life in excess of 20 years

The practical effect is a further relaxation of the various rules that applied in recent years relating to ‘wear and tear’, renewals basis and replacement furnishings allowance. With effect from 6 April 2017 it will only be necessary to determine that the asset purchased has a potential useful life in the business of less than 20 years for a claim for tax relief on the cash basis to be made.

4 Income for tax purposes will usually be split between joint owners in proportion to ownership. Joint owners will be free to make separate decisions about whether to use the cash basis, although in practice we anticipate that they will align their requirements. The exception to this is married couples and those in civil partnership, where the income must be accounted for on a consistent basis and is automatically split 50:50, unless a declaration is made on form 17 to HMRC so that the actual beneficial ownership split is used instead (for example, if the property is owned 75:25). Seek professional advice.

5 Tax deductible expenses will include council tax, insurance, agent’s fees and advertising. At present, full income tax relief is available for interest (but not capital repayments) on a loan used to purchase a residential let property, as a deduction, but this is changing.

By 2020/21, landlords will no longer be able to deduct finance costs from their property income; they will instead receive a basic rate reduction to their income tax liability. The change is being phased in as follows:

Tax Year	% of finance costs as a deduction	% of finance costs as a basic rate reduction
2017/18	75%	25%
2018/19	50%	50%
2019/20	25%	75%
2020/21	-	100%

As well as restricting tax relief to basic rate (20%), the measure has the effect of increasing taxable income, can result in the landlord becoming a higher-rate taxpayer and may affect certain benefit entitlements.

6 Losses sustained in a tax year are carried forward against future rental profits from the same rental business. They cannot be set against other taxable income of the year.

7 HM Revenue & Customs (HMRC) should be informed when letting commences, and tax returns will be necessary for each owner. It is essential to notify HMRC of new sources of rental income by 5 October following the end of the tax year to avoid late notification penalties being levied.

8 Rental profits will be added to the owner's other income and taxed at their marginal rate of income tax (currently 20% for basic rate tax payers or 40% / 45% for higher rate and additional rate tax payers, depending on taxable income levels).

9 Capital gains on residential property are subject to Capital Gains Tax (CGT) at 18%, where the gain falls within the basic rate band and 28% where the gain falls in to higher rates. This represents an 8% surcharge on the standard CGT rates of 10% and 20% applicable to other assets, such as shares. At present, CGT is payable by 31 January following the end of the tax year in which the disposal takes place. It is proposed (but not yet law) that from April 2019 a payment on account of any CGT due on the disposal of a residential property will be required within 30 days of completion.

10 Expenditure on improvements to the property are subject to tax relief only when the property is sold (e.g. the cost of a new conservatory will reduce the capital gain on sale).

11 Stamp Duty Land Tax (SDLT) is payable on the purchase of buy-to-let property at rates of between 3% and 15%, depending on the price paid.

12 In some circumstances, it might be beneficial to trade via a limited company but seek professional advice first.

13 Finally, we would recommend the use of a letting agent to manage your property. They will be able to ensure that you comply with the increasing responsibilities of landlords, such as checking your tenant's right to rent, health and safety requirements and tenancy deposit protection.

This is a brief summary, for further information please contact: **Clare Goodswen** - Partner, **Tessa Morgan** - Senior Tax Manager or **Sam Holloway** - Chartered Tax Adviser.

We offer free initial consultations.

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M+A Partners

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Our Norfolk-based firm is led by nine partners who are some of the most high-profile and well-respected experts in their fields locally, supported by a talented team of over seventy staff.

We have a well-earned reputation for building excellent relationships with clients and the wider business community. That has always been, and continues to be our number one priority.

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