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Tax and property: an overview of key changes

The government has announced a series of changes to the property tax regime in recent times. This factsheet considers the latest situation, and provides an overview of the tax implications of owning property.

Buy-to-let properties

Income tax

The income that you receive from your rental property will generally be treated as arising from a business, but you are not actually treated as trading. However, if the income is from Furnished Holiday Lettings (FHLs) or the provision of services such as hotels and guest houses, it is classified as trading income.

Particular expenses will reduce the taxable income of buy-to-let properties. These expenses include interest on mortgages which are financing the purchase or improvement of buy-to-let properties, letting agency fees, utility bills and property and contents insurance premiums.

Buy-to-let landlords have historically received relief on interest payments against rental income. This has effectively given them relief at their top rate of income tax – which could be up to 45%.

In a move which the previous Chancellor George Osborne stated would 'level the playing field', landlord tax interest relief is now being reduced in a series of stages, from April 2017 onwards.

Restriction of finance costs relief for individual landlords

Finance costs include mortgage interest, interest on loans to buy furnishings, and fees incurred when taking out or repaying mortgages or loans. The change will restrict relief for finance costs on residential properties to the basic rate of income tax, and is being introduced gradually from April 2017 over a period of four years.

Landlords will no longer be able to deduct all of their finance costs from their property income to arrive at their property profits. They will instead receive a basic rate reduction from their income tax liability for their finance costs.

In 2017/18 the deduction from property income was restricted to 75% of finance costs, with the remaining 25% being available as a basic rate tax reduction. Over the subsequent years the direct deduction of finance costs is being reduced by 25% each year, reaching 50% in 2018/19, until 6 April 2020 when all finance costs incurred by a landlord will be given as a basic rate tax deduction.

Annual property income allowance

A new £1,000 annual property income allowance has been introduced, meaning that from 6 April 2017 where the allowance covers all of an individual's relevant income (before expenses), they do not need to declare or pay tax on this income. Those with higher incomes have the choice of deducting the allowance from their receipts, instead of deducting the actual allowable expenses. The new allowance does not apply to income from a property business in partnership, and is not in addition to relief given under the Rent-a-Room legislation.

Repairs and replacements

The previous 10% wear and tear allowance has been replaced with a relief allowing all residential landlords to deduct the actual costs of replacing their property furnishings. This enables all landlords of residential dwellings to deduct the costs they actually incur on replacing furnishings, appliances and kitchenware in the property, but excluding fixtures.

The relief given is 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.

Fixtures integral to the building that are not normally removed by the owner if the property is sold (such as baths or fitted kitchen units) are not included because the replacement cost of these would be a deductible expense as a repair to the property itself. Landlords no longer need to decide whether their property is sufficiently furnished to claim the new replacement furniture relief, as they had to when claiming the wear and tear allowance. This is because the relief applies to all landlords of residential dwellings, no matter what the level of furnishing. This deduction is not available for FHLs because capital allowances will continue to be available for them.

The furniture replacement relief does not apply to FHLs and letting of commercial properties, because those businesses receive relief through capital allowances. However, owners of all other residential properties can claim a deduction for the replacement cost of furniture, furnishings, appliances and kitchenware.

Stamp Duty Land Tax (SDLT)

SDLT on the purchase of residential properties is charged on the portion of the purchase price which falls within set rate bands in England and Northern Ireland. Higher rates of SDLT are charged on purchases of additional residential properties (above £40,000). The higher rates are three percentage points above the current SDLT rates. In Scotland, property transactions are governed by the Land and Buildings Transaction Tax (LBTT). From April 2018, property transactions in Wales are governed by the Land Transaction Tax (LTT).

First-time buyers in England and Northern Ireland paying £3
less for a residential property no longer pay SDLT. T
£300,000 and £500,000 pay SDLT at 5% on
price in excess of £300,000. Those pur
£500,000 are not entitled to relief

In the 2018/19 Scottish Budg
confirmed that a new relief
purchases up to £175,00
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Capital gains

CGT and your home

Your main residence is normally automatica
you sell it, subject to certain conditions and provid
only or main residence during the whole period of ownership
31 March 1982). Various rules allow periods of temporary absence to be disregarded.

If you are a UK resident and own more than one home in the UK, you can elect which is to be your main residence within two years of acquiring the additional residence. As long as the home has, at some time, been your main residence for CGT purposes, the last 18 months of ownership will be included in your exempt period.

The situation may be complicated where a principal private residence has been let other than during the last 18 months of ownership or during a period of allowable absence. In these circumstances, the associated lettings relief of up to £40,000 (£80,000 for a couple) could be utilised.

Forthcoming changes

In the Budget, the Chancellor announced that the planned introduction of the 30-day payment window for gains on residential property disposals will be deferred until April 2020. This will not affect gains on properties which are not liable for CGT due to Private Residence Relief.

Business use of your home

If you use part of your home exclusively for business, interest and running costs on the relevant portion of the home will be allowed as a business expense. A similar proportion of the CGT exemption will be lost. However, if you use some rooms exclusively for business for most of the time, but also for non-business purposes for some of the time, the full
ill normally be preserved.

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IHT and your business

Businesses will normally attract business property relief of 100%, allowing your business to be passed on with no IHT liability. Business assets owned by you but used by a partnership you are a part of, or a company you control, attract business property relief at 50%. Similar reliefs apply to agricultural property.

We can advise on all aspects of tax and property.