

FOCUS ON

Buy to Let Investors

Following on from chancellor George Osborne's 2015 Summer Budget announcement we have summarised the tax changes that Buy to Let (BTL) investors need to be aware of.

Changes from 06 April 2016

Relief for furniture and fittings

At present, a wear and tear allowance is given at 10% of the net rents received in respect of fully furnished let properties. This will be abolished from 6 April 2016. In its place all landlords of residential property (whether fully furnished or not) will only be able to claim the actual cost of replacing furnishings. It is worthwhile considering the deferral of capital expenditure until after 6th April 2016 to optimise tax relief.

Changes from 06 April 2017

Relief for mortgage/loan interest for BTL investors
Currently individual landlords receive tax relief at their highest rate of income tax on all of the interest they pay to finance their letting business.

From April 2017 the amount of interest that will be eligible for tax relief at the higher and additional rate (40 & 45%) will be restricted to the following:

- 75% of the interest paid in 2017/18
- 50% of the interest paid in 2018/19
- 25% of the interest paid in 2019/20

The balance of the interest will be eligible for 20% tax relief in each case. From 6 April 2020, only basic rate tax relief will be available for interest for higher or additional rate tax payers.

These rules do not have a bearing on tax payers that pay income tax at the basic rate (20%) only. However, both property partnerships and members of Limited Liability Partnerships ('LLPs') are caught by the new rules on a just and reasonable apportionment basis.

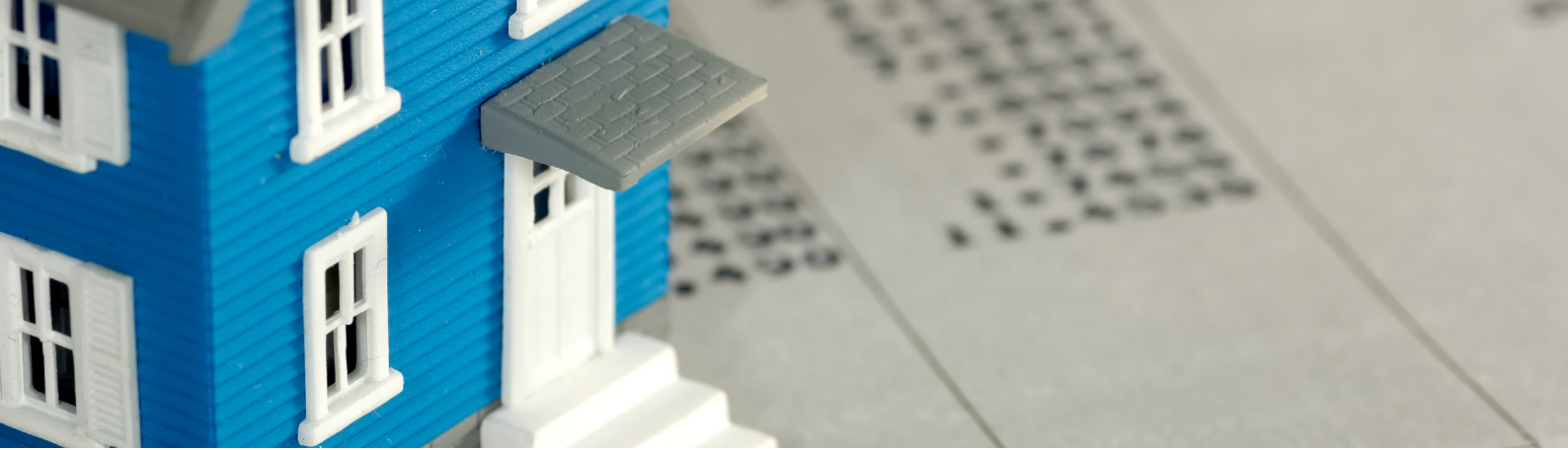
Changes from 01 April 2017 and 2020 for Companies
The rate of corporation tax will be set at 20% for the two years starting 1 April 2015. It will then be cut to 19% for three years starting on 1 April 2017, and to 18% from 1 April 2020.

Dividend tax allowance from 06 April 2016

The taxation of dividends will be reformed from 6 April 2016. The 10% dividend tax credit is abolished. In its place, individuals will have a £5,000 dividend tax free allowance per tax year. An individual will pay no income tax on dividend income received up to the £5,000 amount. However, dividend receipts in excess of £5,000 will be taxed at:

- 7.5% for basic rate taxpayers (previously 0%)
- 32.5% for higher rate taxpayers (previously 25%)
- 38.1% for additional rate taxpayers (previously 30.56%)





This will be relevant to investors holding BTL properties through companies and extract income via dividends.

BTL investors should start planning now

Individual property investors should start planning now to ensure they have the correct structure for their property rental business.

It is increasingly popular for landlords to incorporate their property business and this should remain the case. The Limited Company will not be affected by the proposed restrictions to mortgage interest relief and is also provides several other opportunities from a tax perspective, including:

1. The low rates of corporation tax means higher post-tax profits can be retained for reinvestment or used to repay borrowing. When the corporate rate is 18% for every £100 of profit earned by a company there will be £82 left after tax to reinvest compared to £55 for an individual who pays income tax at the 45% rate.
2. There is still the opportunity for tax efficient remuneration from the Company despite the increases to dividend taxation set out above.

We strongly advise that you take advice based on your individual circumstances.

Contact us

If you would like further advice about the changes introduced in the 2015 Summer Budget or planning the right structure for your property rental business, please contact a member of our specialist Property & Construction Group or your local office partner.

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