Buy-to-let Mortgages

Your guide to buy-to-let tax changes.

At the Summer Budget 2015, there were a number of changes relating to the treatment of income tax for buy-to-let investors. To help you understand these upcoming changes, we've produced this handy factsheet which helps explain what they could mean for you.

So what's changed?

Currently, when landlords pay tax on their rental profits, they can generally deduct the cost of mortgage interest as part of their finance costs* before arriving at profit, on which tax is payable. However, from 2017/2018, for all individual landlords, the deduction of mortgage interest will be gradually replaced with a tax relief allowance that will partly offset the tax calculated on rental income.

To give landlords time to adjust, the amount of tax relief that applies will be phased in over four years from April 2017, as follows:

In **2017/18** the deduction from property income will be restricted to **75%** of finance costs, with the remaining **25%** being available as a basic rate tax reduction.

In **2018/19**, **50%** finance costs deduction and **50%** being available as a basic rate tax reduction

In **2019/20**, **25%** finance costs deduction and **75%** being available as a basic rate tax reduction

From **2020/2021** all financing costs incurred by a landlord will be available as a basic rate tax reduction

The changes will mostly affect higher and additional rate tax payers, as they effectively reduce the rate of relief on interest costs from their marginal rate to the basic rate (currently 20%). It is also possible that a basic rate tax payer could find themselves nudged into a higher rate band as a result of these changes.

It's important to note that these income tax changes do not apply to limited company structures. It may be that having a portfolio of buy-to-let investments within a limited company structure may be more attractive for some individual investors – but it's always best to take professional advice.

"I'm thinking about transferring my portfolio: what do I need to consider?"

The precise mechanics of transferring existing buy-to-let properties into a limited company structure will vary depending on your personal circumstances and your tax position. However, in all circumstances, your properties need to be legally "sold" to your limited company, at the market value on the date of the sale. This value must be determined by a third party valuation.

What are the costs?

For this reason, the sale of property from an individual to their limited company is likely to be subject to Stamp Duty Land Tax, payable by the company, and Capital Gains Tax, based on the difference between the market value and the original purchase price – less annual allowances, payable by the individual.

In addition to the potential tax costs – and more importantly, how you're going to fund them – you should also consider any legal expenses that the transfer will require, and their impact on the overall cost of financing your portfolio.

FOR SALE

Your properties need to be legally "sold" to your limited comany

*Finance costs includes mortgage interest, interest on loans to buy furnishings and fees incurred when taking out or repaying mortgages or loans. No relief is available for capital repayments of a mortgage or loan.

aldermore

aldermore.co.uk/btl

What to consider…

if you're a basic rate taxpayer?

If you are a basic rate taxpayer the calculation methodology changes, so ensure your tax bracket won't change as a result.

if you're a higher or additional rate taxpayer?

If you are in a higher tax band, the new rules will result in an increase in your tax charges. The level of increase will of course depend upon the size of your portfolio, and the level of borrowing costs relative to your rental income.

Did you know?

A 3% additional **Stamp Duty Land Tax** surcharge was also announced in the Autumn Statement, to the purchases of residential buy-to-let property (above £40,000), starting from April 2016. The surcharge applies to both individual and corporate landlords. Meanwhile in Scotland, a 3% surcharge will also apply to Land and Buildings Transaction Tax (LBTT), from April 2016. Different rates apply to non-residential property transactions.

3% surcharge

Mortgage interest

Tax relief will gradually change from 2017

Changes could affect all kinds of landlords

There are different taxes, costs and reliefs to consider whether you trade as an individual landlord or via a limited company structure.

You should only seek tax advice from a qualified tax expert.

What to do next

If you want to learn more about the new changes, here's what you need to do next:

- ☑ Seek advice from a qualified tax adviser on how the new rules will affect your taxable income, to make sure you fully understand them
- ☑ Discuss your portfolio and the best way to structure it with a qualified tax adviser
- ☑ Finally, once you have discussed your portfolio with your tax adviser, you can also contact us here at Aldermore so we can help you realise your plans

The information that Aldermore is providing is for information purposes only and does not constitute tax advice. It's best to seek advice from a tax expert on how the rules will affect your taxable income.

aldermore

aldermore.co.uk/btl