THE McCAY PARTNERSHIP
Chartered Accountants

Property and tax

A guide to tax when buying, renting out and selling property.

When the Chancellor George Osborne announced that he was curbing tax breaks for landlords in Summer Budget 2015, there was speculation that it would result in thousands of landlords selling up and getting out of the property business.

This was because the changes would alter 2 extremely valuable reliefs which landlords have been able to claim.

Wear and tear

The first of these is the scrapping of the 'wear and tear' allowance. Currently landlords can lower their tax bill by 10% to pay for the upkeep of their properties, whether they have spent any money or not.

From April 2016, the tax relief will only apply to the costs they actually incur, and have the receipts to prove it.

Mortgage relief restriction

The bigger change comes in April 2017 when landlords (except landlords of furnished holiday lettings) will no longer be able to deduct finance costs to work out their income.

Instead they will receive a basic rate reduction from their income tax liability.

As finance costs are defined as mortgage interest, fees incurred when taking out or repaying mortgages or loans and interest on loans for furnishings, this is a significant change which will be introduced gradually.

The timetable is as follows:

- **2017 to 2018**: deduction from property income will be restricted to 75% of finance costs, the remaining 25% will be available as a basic rate tax reduction
- **2018 to 2019**: 50% finance costs deduction and 50% as a basic rate tax reduction
- **2019 to 2020**: 25% finance costs deduction and 75% as a basic rate tax reduction
- **from 2020 to 2021**: all financing costs will be given as a basic rate tax reduction.

The impact will be felt most by higher rate taxpayers, as the tax relief on monthly interest payments will reduce from 45% to 20% over 3 years.

The bigger picture

Are these 2 changes going to be deal-breakers for investors? They are really just part of a larger equation.

Every part of the business of acquiring, managing, renting out and selling a property is subject to tax.

And with the huge rise in the number of people who rent out at least 1 property, it's an area that has sparked the interest of HMRC.

According to the Council of Mortgage Lenders there are now 1.57 million landlords in the UK, yet only around half a million have registered with HMRC. This leaves 900,000 who are failing to declare their earnings from their property.

Property and tax

Whether you are an existing landlord, or are thinking about it, here is an overview of the taxes and reliefs that are available.

Our team can help you with your tax obligations.

Buying

Stamp duty land tax (SDLT) changed in December 2014. It is charged based on the proportion a property price that falls within each band.

England

Portion of cost of residential property	Rate
Up to £125,000	Nil
The portion from £125,001 to £250,000	2%
The portion from £250,001 to £925,000	5%
The portion from £925,001 to £1.5 million	10%
The portion above £1.5 million	12%

Scotland

SDLT no longer applies in Scotland, but there is now land and buildings transaction tax. The rates from April 2015 are as follows:

Cost of residential property	Rate
Up to £145,000	Nil
The portion from £145,001 to £250,000	2%
The portion from £250,001 to £325,000	5%
The portion from £325,001 to £750,000	10%
The portion over £750,000	12%

Renting out

Income tax

There are different tax rules for residential properties, furnished holiday lettings and commercial properties, but all are treated as investments.

The rules for residential properties apply whether you are an accidental landlord who is letting out a property, renting out part of your property whilst still living there or have a number of properties that take up all of your time.

Investments are subject to income tax, and if you are running a property business, class 2 national insurance as well.

Income from any property you personally own must be reported through a self assessment tax return. You will need to report income from property if you receive:

- £2,500 to £9,999 after allowable expenses
- £10,000 or more before allowable expenses.

Are you running a property business? In the eyes of HMRC, you are if all the following apply:

- being a landlord is your main job
- you rent out more than 1 property
- you're buying new properties to rent out.

Rent a room relief

The rent a room tax relief scheme has also been updated. Having remained at the same level of £4,250 since 1997, from April 2016 homeowners will be able to earn up to £7,500 tax-free per year for letting out rooms to lodgers. To qualify for the scheme it must be the homeowner's main property.

Contact our team to talk about property tax relief.

Selling

Capital gains tax

Capital gains tax is levied at 18% or 28% depending on whether people are basic rate or higher rate taxpayers. It applies when you sell a buy-to-let property at a profit of more than the annual allowance, currently £11,100 for 2015/2016.

Generally you don't pay capital gains tax on your main home if you lived in it the whole time you owned it.

However, there are some circumstances in which you may have to pay capital gains tax. For example, you did not live in it full term or you dedicated part of your home as business.

Inheritance tax

If you own property in virtually any part of the country, the chances are that it may push your estate over the inheritance tax threshold. This stands at £325,000 or up to £650,000 for married couples and civil partners. Anything over that is taxed at 40%.

You will need to consider the value of all property you own when estate planning.

Get help

Like all aspects of property taxation, there are many ways to get it wrong. There are dozens of rules, exemptions, reliefs and penalties which must be considered.

If you want to get it right from the start, get in touch.

Careful planning, sound advice and the right timing will make all the difference. As will getting the right tenant. But that's another story.

Get in touch to talk about property and tax.