Teachers
Financial Planning

Buy-to-let property

An overview of changes that will affect individuals who purchase or own buy-to-let properties.

In 2014 there were almost 2 million landlords in the UK who owned close to 5 million properties. Currently 18% of households rent from private landlords. This figure is predicted to increase by an additional 1 million properties by 2019.

Yet this prediction may not be fulfilled now. Starting in April 2016, the government will be introducing a number of wide ranging changes to buy-to-let tax and allowances.

Every owner or prospective owner of buy-to-let property, whether that is a single house or flat or an extensive portfolio, will be affected by these changes.

So, what are they and how can buy-to-let investors minimise the impact that they will have on their income and property?

Stamp duty

Stamp duty land tax is payable when someone purchases property or land over a specific price threshold in England, Wales and Northern Ireland. The current thresholds for stamp duty are £125,000 on residential property and £150,000 on non-residential land and property.

Stamp duty does not apply in Scotland anymore. Anyone purchasing property in Scotland has to pay land and buildings transaction tax.

Stamp duty is applied:

- when purchasing freehold property
- when purchasing new or existing leasehold property
- on property purchased through a shared ownership schemes
- to transferred land and property when someone is in receipt of payment for example when someone buys a share in a house or takes on a mortgage.

These rates will remain the same for any property purchased by a buyer who will be living there.

However, as of April 1 2016 there will be an additional 3 percentage points stamp duty rate levied on any property purchased as a buy-to-let or as a second home.

This additional 3 percentage points will be paid by buy-to-let or second home purchasers on any property costing above £40,000.

Stamp duty land tax rates

Portion of property price	Current SDLT rate	SDLT from April 2016 rate
Up to £40,000	Zero	Zero
£40,001 - £125,000	Zero	3%
£125,001 - £250,000	2%	5%
£250,001 - £925,000	5%	8%
£925,001 - £1.5 million	10%	13%
Above £1.5 million	12%	15%

Thus, if a first time buyer purchased a £250,000 property they would pay £2,500 in stamp duty whereas a landlord would pay £10,000.

Stamp duty due on a buy-to-let property costing the national average of £184,000 will increase by £5,520 from April 2016.

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Owners of a portfolio of property should note that property investors owning more than 15 properties are expected to be exempt from the new stamp duty thresholds.

In addition to stamp duty increases landlords will also be affected by alterations to capital gains tax (CGT) regulations in 2019. They will have to pay any CGT within 30 days of the completion of a sale of one of their properties.

The current payment period is between approximately 10 and 22 months.

Contact us today to talk about stamp duty.

End of the wear and tear allowance

Landlords of furnished residential properties can currently deduct 10% of net rent from their profits to cover 'wear and tear' on their properties. The deduction can be applied whether they replace any furnishings, fixtures and fittings or repair the property or not.

This will be changing in April 2016. Landlords will only be able to claim tax relief when they purchase furniture for their rental property.

This may seem a small element of legislation affecting landlords however, research by the National Landlords Association indicated that 47% of landlords would be affected by the alterations.

The new scheme will permit landlords to deduct the actual costs of replacing:

- furniture
- furnishings
- kitchenware
- appliances.

One of the benefits of the new rules will be that calculating and determining expenses is easier for landlords. They will not have to work out whether their property is furnished enough or whether something is a fixture in order to claim the 10% relief.

Landlords with a portfolio including furnished, unfurnished and part-furnished property will also be able to deduct expenses.

Landlords rarely spend 10% of their rental income on wear and tear. Consequently, landlords who only let fully-furnished property could experience a reduction in the amount they can claim.

Conversely, landlords who spend more than 10% of rental income will benefit.

Talk to us about the wear and tear allowance today.

Mortgage interest relief restriction

At present, landlords can offset mortgage interest against rental profits. This rate will be capped at 20% of interest by 2020/21. These changes will be introduced gradually from the start of the 2017/18 tax year.

Tax relief will be restricted under the new legislation by adding back the finance interest claimed in a tax return and then allowing the deduction of 20%.

The impact of the change will vary according to the tax band of each landlord. In general:

- basic rate taxpayers after the change won't pay more tax
- basic rate taxpayers moved into the higher rate band by the changes will pay more tax
- existing higher rate taxpayers will pay more tax.

It is advised that landlords begin to plan for the tax changes immediately despite their introduction not being until 2017/18.

There are a number of options landlords can take in order to minimise the impact of the changes on their profits:

- transfer existing property into a company. The new rules do not apply to companies but bear in mind setting up a company could incur a CGT charge plus stamp duty as the transfer is treated like a sale
- reduce personal profits by using a property management company. This can be cost effective as along as profits remain below the VAT threshold (currently £82,000)
- make pension and gift aid charity donations to help increase your basic rate band
- claim all possible allowances/expenses/relief
- transfer property ownership to basic rate taxpayers, for example a family member.

While these 3 changes may seem complex, we can help you get to the bottom of what they mean for you and your properties.

Our team can help you understand buy-to-let taxation.