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Rental Property
Changes to the Tax Rules

Changes to property tax relief have been announced which will have an impact on the tax payable by individual landlords on profits from rental property.

Landlords must pay tax on the profit made from renting out property, after deductions for 'allowable expenses'.

Allowable expenses

Allowable expenses are things you need to spend money on in the day-to-day running of the property, like:

- *letting agents' fees*
- *legal fees for lets of a year or less, or for renewing a lease for less than 50 years*
- *accountants' fees*
- *buildings and contents insurance*
- *interest on property loans*
- *maintenance and repairs to the property (but not improvements)*
- *utility bills, like gas, water and electricity*
- *rent, ground rent, service charges*
- *Council Tax*
- *services you pay for, like cleaning or gardening*
- *other direct costs of letting the property, like phone calls, stationery and advertising*

Restriction of finance cost relief

The government has announced a measure which will restrict relief for finance costs on residential properties to the basic rate of Income Tax. This will be introduced gradually from 6 April 2017.

Finance costs include 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.

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.

Landlords will be able to obtain relief as follows:

- ***in 2017/2018*** *the deduction from property income (as is currently allowed) will be restricted to 75% of finance costs, with the remaining 25% being available as a basic rate tax reduction*
- ***in 2018/2019****, 50% finance costs deduction and 50% given as a basic rate tax reduction*
- ***in 2019/2020****, 25% finance costs deduction and 75% given as a basic rate tax reduction*
- ***from 2020/2021*** *all financing costs incurred by a landlord will be given as a basic rate tax reduction*

The restriction will not apply to landlords of property which qualifies as Furnished Holiday Lettings.

Repairs and replacements

Until 5 April 2016, if the property let out was fully furnished, a claim could be made to the wear and tear allowance which was 10% of the net rent and covered domestic items like:

- *movable furniture or furnishings, such as beds or sofas*
- *televisions*
- *fridges, freezers, and other white goods*
- *carpets and floor-coverings*
- *curtains*
- *linen*
- *crockery or cutlery*
- *tables and other similar furniture*

From 6 April 2016, the wear and tear allowance has been replaced with a new relief which allows all residential landlords (whether the property is fully furnished or not) to deduct the actual costs of replacing property furnishings.

The new relief enables all landlords of residential dwellings to deduct the costs they incur on replacing domestic items which were previously included in the wear and tear list (above).

The initial cost of purchasing domestic items is not allowable, relief is only available for a replacement item.

This deduction does not apply to Furnished Holiday Lettings and letting of commercial properties, because those businesses receive relief through capital allowances.

Please do not hesitate to contact us should you have any queries

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