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BUY TO LET & TAX

What is Stamp Duty Land Tax

Stamp Duty Land Tax is payable on the acquisition of properties, including buy to let properties. The amount varies depending on the price of the property.

The current rates of Stamp Duty (from 1 April 2016) for buy to let properties where the purchaser already owns at least one property are:

- **3% tax on the first £125,000**
- **5% on the portion up to £250,000**
- **8% on the portion up to £925,000**
- **13% on the portion up to £1.5 million**
- **15% on portion exceeding £1.5 million**

If you are purchasing an additional property, you will be charged these rates. This will include holiday lets but also buying a property for children if the parents leave their name on the title deeds or vice versa. Stamp Duty must be paid within 30 days of completion of the purchase of the property, although the amount of Stamp Duty paid is deductible from any capital gains made when the property is sold or gifted.

Capital Gains Tax

The sale of property (excluding your main residence) for more than was paid for it, after deducting allowable costs such as Stamp Duty and estate agent/solicitor's fees, will result in a capital gain. An individual has an annual allowance to set against any gain. Whilst lower Capital Gains Tax (CGT) rates of 10% and 20% were announced in the 2016 Budget, these do not apply to any disposal of properties. As a result any gains are chargeable at 18% or 28%.

Reducing any CGT liability

There are legitimate ways to reduce or defer the amount of CGT payable. These include:

- **Offsetting any loss made on the sale of a buy-to-let property in previous years**
- **Costs of advertising the property for sale**
- **Stamp Duty**
- **Any expenditure on 'capital' items**
- **Investing funds equivalent to any gain made into an appropriate tax-efficient investment vehicle**

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As with Income Tax, any gain is declared on your Self-Assessment tax return. The tax is therefore payable by the 31 January in the year after the tax year in which the property was sold. However, from April 2019 it is anticipated that any tax payable on the profit of the sale of the property will be payable within 30 days of the date the property is sold.

Income Tax on Buy to Let Income

Income received as rent is taxable and should be declared as part of the Self-Assessment tax return. Tax on income is then charged in accordance with the investor's Income Tax banding (20% for basic rate taxpayers, 40% for higher rate, and 45% for additional rate).

It is possible to reduce the tax payable by deducting certain 'allowable expenses' which typically include:

- **Interest on buy to let mortgages and other finance charges (see below)**
- **Council Tax, insurance, ground rent etc**
- **Property repairs and maintenance – however, large improvements such as extensions will not be deductible for Income Tax. They will be added to the cost of the property when it is sold and be deductible against any capital gain**
- **Legal, management and other professional fees, such as for a letting agent**
- **Other property expenses, including building insurance premiums**

From April 2017 the government introduced a new £1,000 allowance for individuals with property income below the level of the allowance. These individuals will no longer need to declare property income or pay tax on that income.

'Wear and Tear Allowance'

From April 2016 the wear and tear allowance was scrapped. This allowance had meant landlords could deduct 10% of the net rent from the rental income subject to tax to represent the replacement of furnishings etc. and therefore reduce their liability on an annual basis. From 2016/2017 onward, they can only deduct expenses genuinely incurred on the replacement of qualifying expenditure which is likely to increase the landlords' tax liability each year.

Tax changes introduced from 6 April 2017

The Finance (No.2) Act 2015 included provisions that changes the way in which interest is deductible when calculating the profits from rental property. These changes started from 6 April 2017 and will gradually shift the allowable deduction to zero with effect from the tax year 2020/21. During this period a new tax reduction will be introduced to give relief at the basic rate.

This will work as follows:

- **In 2017/18, the deduction from rental income is restricted to 75% of finance costs, with 25% being eligible for a basic rate tax credit**
- **In 2018/19, a 50% finance costs deduction is available, with 50% as a basic rate tax credit**
- **In 2019/20, 25% of the finance costs are available as a deduction, with 75% given as a basic rate tax credit**
- **From 2020/2021 all financing costs incurred will only be given a basic rate tax credit**

Would using a limited company be an option?

There is no simple answer to this question. It will depend upon a host of different factors, including:

- **The number of properties held**
- **How long the properties will be held for**
- **Level of rent and other earnings/income**
- **The extent of leveraging on the properties**
- **The landlord's general personal circumstances**

Limited companies are, however, not affected by the new mortgage interest relief restrictions and interest for limited companies is classed as a business expense and fully deductible against income. Furthermore, companies pay Corporation Tax at a fixed rate, irrespective of the size of the profits, with Corporation Tax rates reducing to 17% in 2020. This makes the tax rate very attractive compared to 40% for higher rate taxpayers and 45% for additional rate taxpayers.

Conversely, it would also be important to address how the money (rental income) in the company is passed out to the investor.

It should also be noted that transferring a current buy to let property into a limited company may not only cause practical difficulties where there is a current mortgage on the property, it can also trigger Stamp Duty land Tax and Capital Gains Tax charges at the time of transfer. Although it may be possible to undertake planning to limit such liabilities, it is essential that professional advice is sought before embarking on the limited company route.

Start by talking to one of our buy to let mortgage advisers