

Buy To Let Market Faces Tough New Rules

Restriction of Relief on Interest

This change will not affect individual landlords whom are basic rate taxpayers or company landlords.

Tax relief on interest (and other finance costs) will be removed and replaced by a tax credit equivalent to 20% of the restricted amount of interest effectively resulting in relief on interest being restricted to the basic rate tax band.

This is being phased in as follows:

- From April 2017 (2017/18 tax year) the restriction will apply to 25% of the interest.
- From April 2018 (2018/19 tax year) the restriction will apply to 50% of the interest.
- From April 2019 (2019/20 tax year) the restriction will apply to 75% of the interest.
- From April 2020 (2020/21 tax year) the restriction will apply to 100% of the interest.

Wear and tear allowance

Currently landlords of furnished properties are allowed to deduct a flat rate 10% of rental income in respect of a wear and tear allowance. This is being removed from April 2016 and applies to both individual and corporate landlords.

Instead of the wear and tear allowance, landlords of all residential properties, both furnished and unfurnished, can deduct the actual cost of replacing furnishings, appliances, curtains, carpets and other items that may be provided with the property.

Only replacement items will be deductible, the initial cost of providing the items won't be allowable.

Stamp duty to rise by 3% on buy to let and second homes

It has been announced that from 1st April 2016 a 3% stamp duty surcharge will apply to the acquisition of any buy-to-let properties or second homes above £40,000.

Currently buyers pay no stamp duty on the first £125,000, then 2% on £125,001 to £250,000, 5% on £250,001 to £925,000, 10% on £925,001 to £1.5m and 12% above £1.5m.

From April 2016 these rates will increase by 3% for homes exceeding £40,000 resulting in new rates of 3% up to £125,000, then 5% on £125,001 to £250,000, 8% on £250,001 to £925,000, 13% on £925,001 to £1.5m and 15% above £1.5m.

Capital Gains tax on disposal of buy-to-let properties and second homes

Currently, a disposal of a buy-to-let property is included on an individual's tax return for the year of disposal and the tax payment is due by the end of the January following the tax year-end in which the disposal was made.

From 2019 Capital Gains tax on the disposal of residential property will be due within 30 days of completion.

