

Tax Relief on Loan Interest

From 6 April 2017, income tax relief on finance costs on residential properties will be restricted to the basic rate of income tax.

As these changes are likely to have a significant effect on higher rate taxpayers with significant borrowing, the changes are being phased in over 4 years.

The effect of the changes is to gradually remove finance costs as an expense in calculating taxable rental profit. Instead, a tax reduction of 20% of the finance costs is given against the taxpayer's income tax liability.

The timetable for the changes in relief is as follows:

Tax year ending:	% of finance costs given as:	
	Rental expense	20% Tax reduction
5 April 2017	100%	0%
5 April 2018	75%	25%
5 April 2019	50%	50%
5 April 2020	25%	75%
5 April 2021	0%	100%

These changes will not apply to landlords of Furnished Holiday Lettings, but will apply to corporate landlords.

Costs of Replacement Furnishings

From 6 April 2016, the 10% wear and tear allowance available to landlords of furnished residential property is being repealed, and a new allowance introduced.

This new allowance will also apply to landlords of unfurnished property, and provides a tax deduction for the cost of replacing domestic items such as furniture, furnishings, appliances (including white goods) and kitchenware.

If there is any significant element of improvement in the item being replaced then the tax deduction is limited to the cost of a replacement on a like for like or nearest modern equivalent basis.

The changes should not impact on landlords of Furnished Holiday Lettings (FHL), who will continue to be able to claim capital allowances for this type of expenditure.

Rent-A-Room Relief

From 6 April 2016, the level of the Rent a Room relief is increased from £4,250 to £7,500 per year.

This provides relief from income tax for rental income from letting a room or rooms in your main home. This may include a guest house, bed and breakfast or similar, providing that it is your main residence.

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Stamp Duty

From 1 April 2016, an additional 3% charge to Stamp Duty Land Tax (SDLT) will apply to the purchase of residential property.

The higher charge will apply where all of the following conditions are met:

- A) The chargeable consideration is over £40,000.
- B) Any lease on the property has less than 21 years to run.
- C) The purchaser owns an interest in another property, to which both A & B apply.
- D) The property being purchased does not replace the purchaser's only or main residence.

For condition D above, In the event that there is an overlap or gap in the period of ownership of a main residence, purchasers will have a period of 36 months from the purchase to be able to claim repayment of the additional charge.

The revised bands are as follows:

Threshold	Existing rate	New rate
£40,000 to £125,000	0%	3%
£125,000 to £250,000	2%	5%
£250,000 to £925,000	5%	8%
£925,000 to £1.5 million	10%	13%
£1.5 million and above	12%	15%

There are special rules for joint purchasers, married couples and civil partners. Broadly speaking, the higher rate will apply to all joint purchasers if any of them meet the conditions above. Spouses or civil partners will be treated as joint purchasers for SDLT purposes, irrespective of whether they are named as a joint owner or not.

Find out more

For further information, advice and guidance please contact your usual contact partner or one of our specialists:

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