Presents to...

Cardiff Landlord Forum

The independent forum for landlords based in Cardiff

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Property Income Tax Changes

- Introduction/Background
- Tax changes we are going to cover
- Top Tips
- Where/How to get more information

Background

- Let Property Campaign
- Summer 2015 Budget Announcements
- Autumn Statement 5 point plan for housing
- March 2016 Budget Announcements
- Residential Property
- Personally Owned
- Income reported via self assessment tax returns
- Ostriches to wise owls

Changes

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Income Tax

- Wear and Tear Allowance Reform
- Finance Costs and Restriction of Relief

Capital Gains Tax

- New CGT rates
- 8% surcharge for residential property
- Payment within 30 days

Stamp duty Land Tax

- Higher rates for additional properties
- Filing and payment within 14 days

Wear and Tear Allowance

- Finance Bill 2016 repeal
- New provision for deduction for proven actual costs
- Up to 5 April 2016 – furnished accommodation
  - 10% deduction allowed (of rental receipts)
  - Irrespective whether any money actually spent
- Post 6 April 2016 – furnished/unfurnished accommodation
  - Deduction for actual replacement expenditure
  - Nothing available for initial purchase
  - Evidence of expenditure required

Finance Costs

- Restrictions will apply to:
  - Individual owned properties
  - Residential property
  - Phased in over 4 years
  - Starting in April 2017
- Restriction to Basic Rate
- On ‘Finance Costs’

Finance Costs Definition

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- Interest paid
- Incidental costs of obtaining or repaying loans (arrangement fees)
- Which ones are affected and will be restricted
  - Amounts borrowed for the purpose of generating income consisting of a dwelling house
  - Amounts borrowed for the purpose of a property business
  - Amounts borrowed for constructing or adapting a dwelling house
  - Includes amounts borrowed to invest in a partnership where the partnership used that investment for the above

How will the restriction work?

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Currently

- **All** finance costs are given as a deduction from property income
- Income Tax liability calculated on net property income

Future

- Ability to deduct finance cost is being withdrawn
- Replaced by a basic rate reduction
  - Income tax worked out on all property profits and any other income sources
  - That liability is reduced by an amount calculated by reference to the finance costs
- Taxable income going forward will change (increase)
- Impact will be wider than imagined
  - High income child benefit charge
  - Tax credits
  - Personal allowance

Simple example

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	Simple Example (before and after)	
2016 - 17		2020 - 21
£40,000	Employment Income	£40,000
£15,000	Property Income	£15,000
-£10,000	Finance Costs	£0
-£3,000	Other Expenses	-£3,000
£2,000	Property profit	£12,000
£42,000	Taxable Income	£52,000

Further example

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	Simple Example (before and after)	
2016 - 17		2020 - 21
£40,000	Employment Income	£40,000
£15,000	Property Income	£15,000
-£10,000	Finance Costs	£0
-£3,000	Other Expenses	-£3,000
£2,000	Property profit	£12,000
£42,000	Taxable Income	£52,000
0	£11,000 @ 0%	0
£6,200	£31,000/£32,000 @ 20%	£6,400
0	£0/£ 9,000 @ 40%	£3,600
	Tax Reduction	
	£10,000 @ 20%	-£2,000
£6,200	Final Tax	£8,000

Unsustainable example

Unsustainable Example (before and after)

2016 - 17		2020 - 21
£150,000	Property Income	£150,000
-£125,000	Finance Costs	£0
£25,000	Property profit	£150,000
£25,000	Taxable Income	£150,000
£5,000	£25,000/£32,000 @ 20%	£6,400
0	£0/£ 118,000 @ 40%	£47,200
		£53,600
	Tax Reduction	
	£125,000 @ 20%	-£25,000
£5,000	Final Tax	£28,600
£20,000	Property profit	-£3,600

Basic Rate Tax Reduction

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- New term/principle
- In most cases will mean tax liability increased by 20% of the finance costs
- Basic Rate tax reduction cannot be given against tax due on other income sources
- If property profits are less than the finance costs a restriction will apply
- Excess finance costs carried forward

Restricted example

		Carry Forward (finance costs £10,000)		
	2020 - 21		2021 - 22	
	£40,000	Employment Income	£40,000	
	£15,000	Property Income	£17,000	
	-£8,000	Other Expenses	-£3,000	
	£7,000	Property profit	£14,000	
	£47,000	Taxable Income	£54,000	
	0	£11,000 @ 0%	0	
	£6,400	£32,000/£32,000 @ 20%	£6,400	
	£1,600	£4,000/£ 11,000 @ 40%	£4,400	
		Tax Reduction		
	-£1,400	£7,000/£13,000 @ 20%	-£2,600	
	£6,600	Final Tax	£8,200	

How and When?

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- Starting in April 2017
- Phased in over four years
- Fully effective from 2020 – 21
- Property finance income deduction phased out:
  - 75% of finance costs deductible from rental income in 2017/18
  - 50% of finance costs deductible from rental income in 2018/19
  - 25% of finance costs deductible from rental income in 2019/20
- Basic rate tax reduction phased in:
  - 25% of finance costs in 2017/18
  - 50% of finance costs in 2018/19
  - 75% of finance costs in 2019/20

Phasing in example

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2017 - 18 Finance costs £10,000			
Deduction - 75%		Reduction - 25%	
Employment Income	£40,000	£11,000 @ 0%	0
Property Income	£15,000	£32,000 @ 20%	£6,400
Finance Costs	-£7,500	£1,500 @ 40%	£600
Other Expenses	-£3,000		
Property profit	£4,500	Tax Reduction	
		£2,500 @ 20%	-£500
Taxable Income	£44,500	Final Tax	£6,500

Capital Gains Tax

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- New Capital Gains Tax rates from 6 April 2016

	2015/16	2016/17
Basic Rate	18%	10%
Higher Rate	28%	20%

  - **BUT** 8% surcharge for residential property

- Payment window reduction
  - From April 2019
  - Within 30 days of completion
  - Payment on account now required

Stamp Duty Land Tax

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- Purchases from 1 April 2016
- 3% above current SDLT rates

Property Value	Basic SDLT	New SDLT (additional properties)
£0-125,000	0%	3% (unless less than £40,000)
£125,000-250,000	2%	5%
£250,000-925,000	5%	8%
£925,000-1,500,000	10%	13%
£1,500,000+	12%	15%

Stamp Duty Land Tax Administration

- Consultation stage currently
- Hope to introduce in 2017/2018
- Current window is 30 days
- Proposal is filing and payment within 14 days

Summary

APRIL 2016

- Loss of 10% wear & tear allowance
- Higher rate of CGT (+8% for residential property)
- Higher rates of SDLT (+3% for additional properties)

APRIL 2017

- Year 1 of phasing out of finance costs deduction
- SDLT filing and payment window shortened

APRIL 2018

- Year 2 of phasing out of finance costs deduction

APRIL 2019

- Year 3 of phasing out of finance costs deduction
- CGT due within 30 days

Top 7 Tips to Consider

1. Wear and Tear – Improve record keeping – every little helps !
2. Don't panic but start preparing
3. Do your homework – understand how these changes affect you

    Your taxable income in most cases will increase

4. Review your finances/debt position

    Worst affected are those owning highly leveraged property

5. Review spending on repairs and maintenance
6. Review your income – increase rents?
7. Consider **all** your options (sooner rather than later)

    Restructuring

    Incorporation (rules do **not** apply to companies)

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Here to help you

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