



**accountants**

business & tax advisors



# Agenda

Introductions

Tenant tax campaign

Property income tax changes

*reform of wear and tear allowance*

*restriction of relief for finance costs*

Next steps

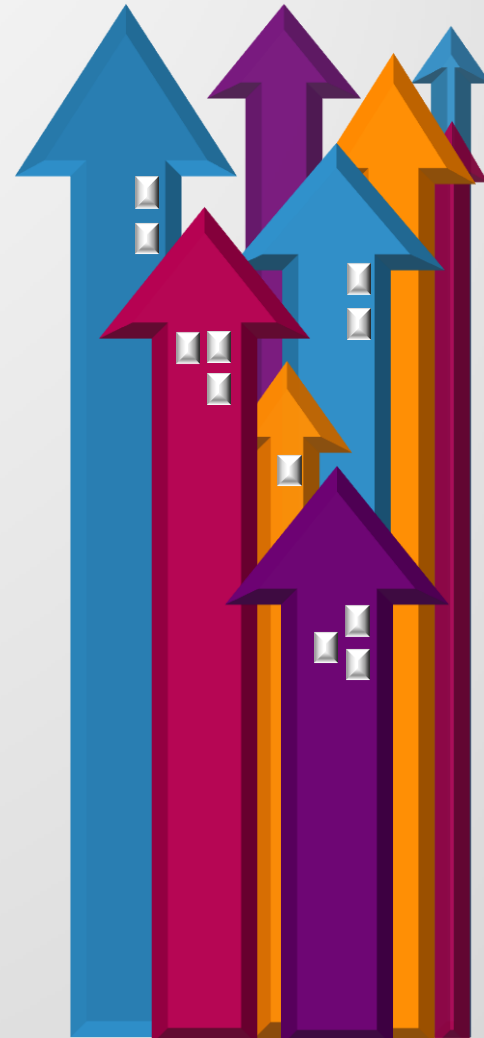
*what are your options?*

Making Tax Digital (MTD)

*overview*

*how it affects you*

Summary



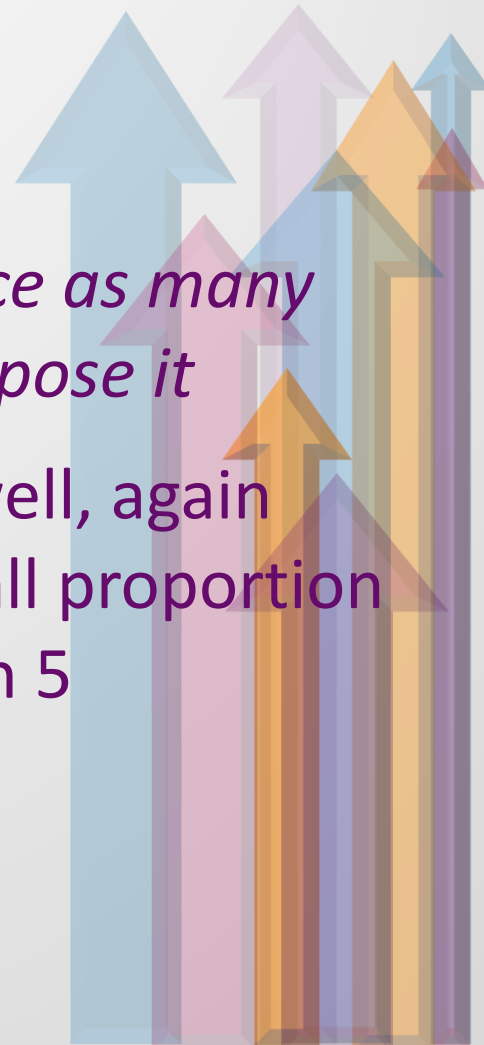
# Tenant tax campaign

- Over 150,000 landlords, housing over 1m tenants
- Challenged the legislation on grounds that new rules are unfair and based on bad tax policy and will worsen the housing crisis
- Brought a judicial review to defeat the introduction of section 24 or force a government U-turn
- Fell on completely deaf ears – Mr Justice Dingemans said: “It would be a miserable spectacle to watch a case that is bound to fail” – permission denied
- Media campaign now trying to obtain U-turn in whole or part



# Tenant tax campaign (cont.)

- Highlighted massive ignorance amongst landlords over section 24 *'it doesn't affect me'*
- Measures prove to be popular:-
  - *YouGov Poll (April 2016) reveals that twice as many people support buy-to-let tax hike than oppose it*
- 23 Jan 2017 – Housing minister, Gavin Barwell, again stated that tax changes will only affect a small proportion of landlords and quoted HMRC figures of 1 in 5



# Wear & tear allowance reform

- Residential property
- Personally owned
- New provision for deduction for proven actual costs
- Up to 5<sup>th</sup> April 2016 – furnished accommodation
  - 10% deduction allowed (of rental receipts)
  - irrespective whether any money actually spent
- Post 6<sup>th</sup> April 2016
  - deduction for actual replacement expenditure
  - nothing available for initial purchase
  - evidence of expenditure required



# Restriction of relief for finance costs

## Restriction to basic rate, these will apply to :-

- Personally owned properties
- residential property
- phased in over four years
- starting in April 2017

## On amounts borrowed for the purpose of :-

- generating income consisting of a dwelling house
- a property business
- constructing or adapting a dwelling house
- includes amounts borrowed to invest in a partnership where the partnership used that investment for the above



# Basic rate tax reduction

New term

Relief on finance costs given by reducing tax liability by 20% in most cases

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



# The impact

## Currently:-

- 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
- taxable income going forward will change (increase)



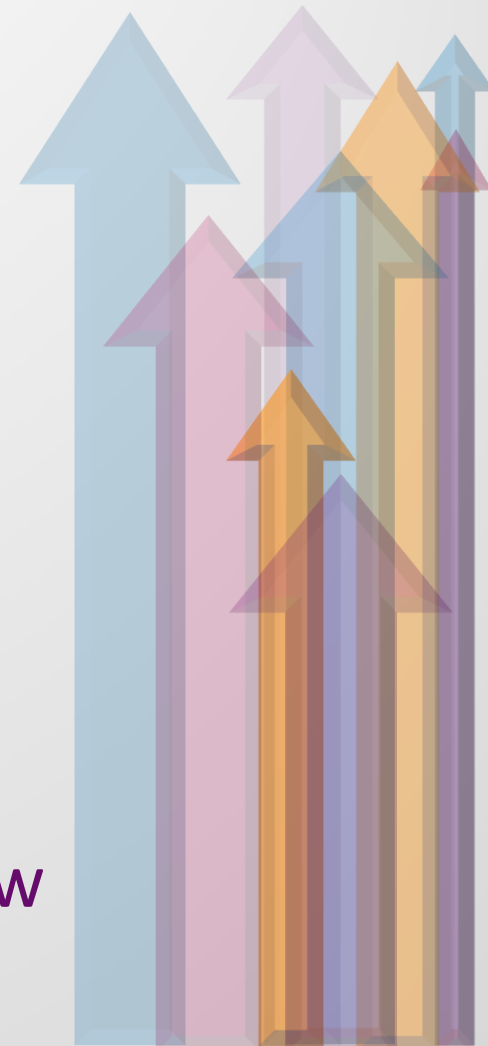


# The impact (*cont.*)

- Impact will be wider than imagined
  - high income child benefit charge
  - tax credits
  - personal allowance

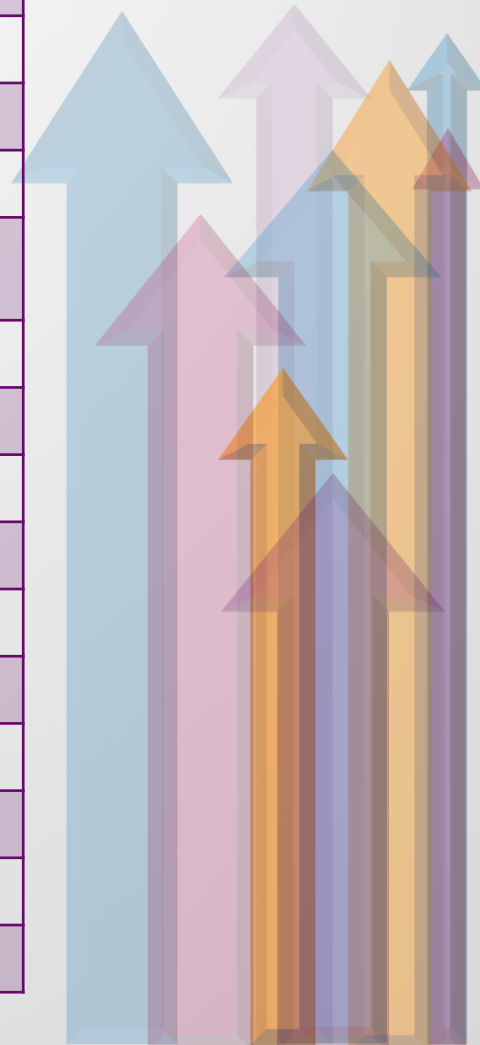
## ***Also...***

- Buy-to-let funding
  - new focus on affordability
  - 5.5% minimum stress test introduced
  - interest rate rise as yields compress
  - limited loan default option now for new purchases



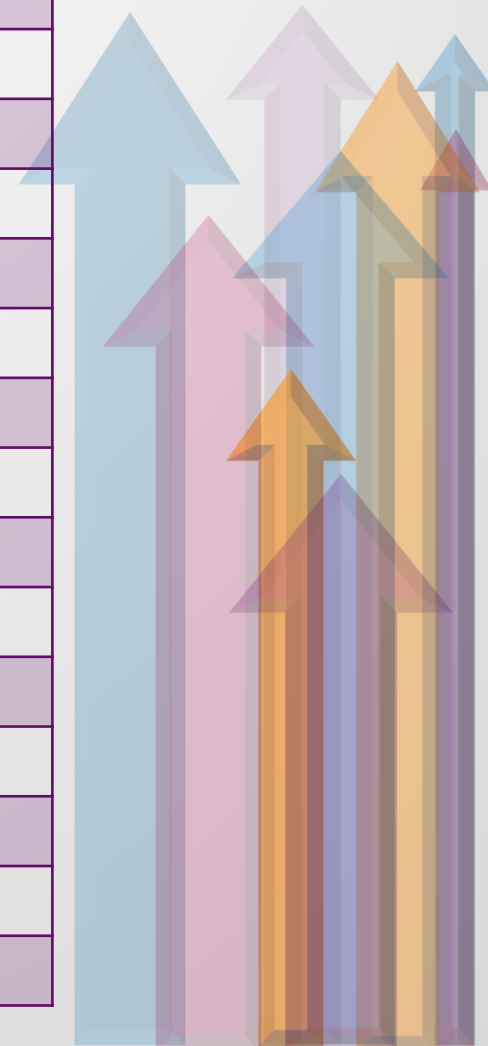
# Simple example *(before and after)*

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 taxable 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 reducer	
	£10,000 @ 20%	(£2,000)
£6,200	Final tax	£8,000
	Increase in tax liability	£1,800



# 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
	Tax reduction	
£0	£125,000 @ 20%	(£25,000)
£5,000	Final Tax	£28,600
	Increase in tax liability	£23,600
£20,000 profit	Cash terms	£3,600 loss



# The timeline

- Commences 6<sup>th</sup> April 2017

- Phased in over four years

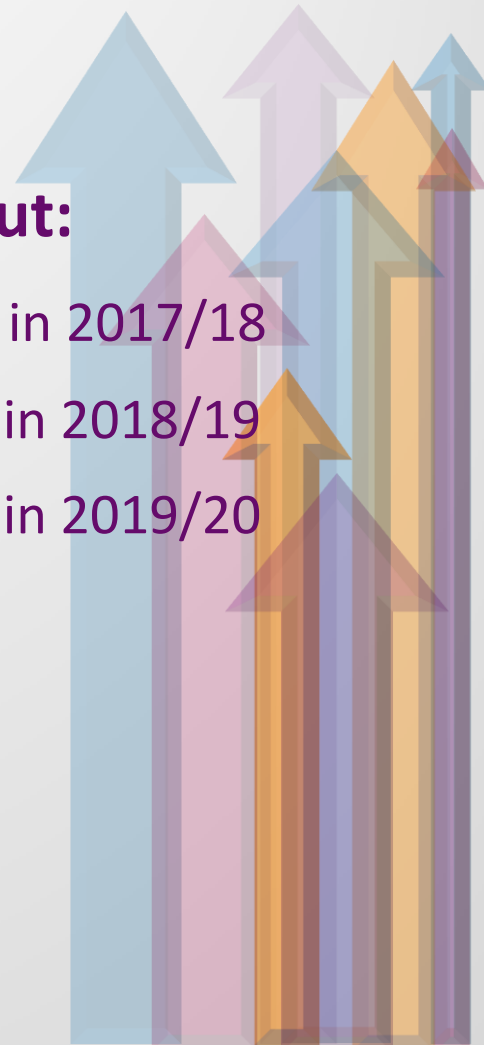
- Fully effective from 2020/21

- 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

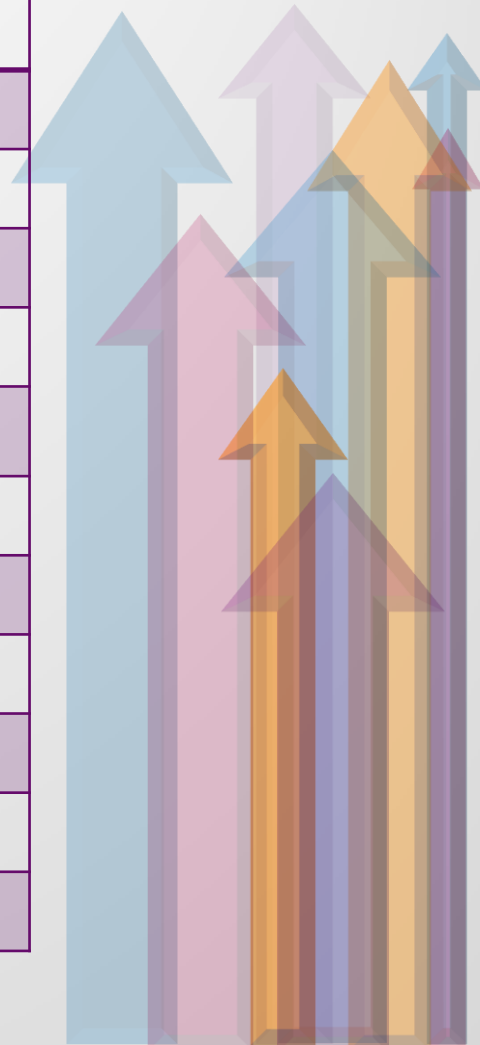
- Basic rate tax reduction phased in:**

- 25% of finance costs in 2017/18
- 50% of finance costs in 2018/19
- 75% of finance costs in 2019/20



# Phasing in example *(before and after)*

<b>2017/18</b>			
<b>Finance costs £10,000</b>			
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



# What are your options?

- 🔗 Understand how the changes affect you
- 🔗 Review your debt
- 🔗 **Consider :-**
  - deleveraging
  - restructuring
  - rent increases



# Incorporation

🌀 **Remember** rules do not apply to companies or FHLs

- existing portfolio
- structure for new property purchases

🌀 **However**

- stamp duty taxes on market value
- capital gains tax on market value
- legal fees
- administration costs
- extraction of profits

🌀 **Qualifying investment business**

- capital gains tax – deferred with no immediate charge
- stamp duty taxes reduced to nil



# Making tax digital (MTD)


- Transformation of tax system bringing an end to the tax return by 2020
- From April 2018
- Individuals that have incomes above VAT threshold per year from self employment and/or property
- From April 2019 – all self employed and landlords
- Quarterly filing to HMRC of income and expenses
- Use software or apps to feed data directly to HMRC





# Making tax digital (*cont.*)

## Key proposals to be aware of:

- Digital record keeping-what software/apps are available?
  - Provide HMRC with updates directly from software/app
  - 'End of year activity' to finalise tax position by making final tax adjustments and relief claims
  - Nomination of primary partner/tax payer for jointly held properties or those in partnerships
- 
- A decorative graphic on the right side of the slide consists of several overlapping, semi-transparent arrows pointing upwards. The arrows are in various colors including light blue, pink, orange, and purple, creating a sense of upward movement and progress.

# Summary

- Improve record keeping – proof for deductions more important than ever - every little helps
- Do your homework – understand how these tax changes affect you
- Review your finances
- Understand how you may be affected by MTD
- Find out all your options (*sooner rather than later*)
- **GET PROFESSIONAL ADVICE**



# Questions





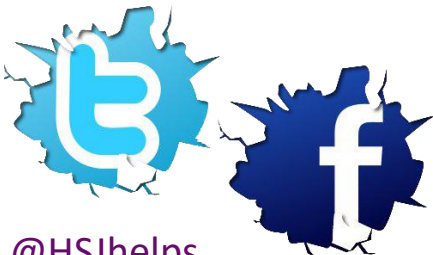
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