**Heart Selling**

**Tax Tips For Landlords**

**Wear And Tear Allowances**

From 6 April 2016, the wear and tear allowance is being withdrawn. This allowance effectively allowed landlords of furnished properties to claim a wear and tear allowance, calculated at 10% of rent received less rates paid in the tax year, as an allowance instead of the actual cost of replacing furnishings.

From 6 April 2016, the actual cost of replacing items will be deductible from profits instead, but there will be no tax relief for the initial capital outlay.

**Finance Costs**

From 6 April 2017, the method of claiming finance costs, including mortgage and loan interests, is changing. The change involves replacing the deduction of interest as a business expense with a reduction in tax instead, but limited to the basic rate of income tax, currently 20%.

This new method is going to be phased in over 4 years, as follows:-

* 2017/18 75% of finance costs allowable as in the past, and 25% gets only 20% tax relief
* 2018/19 50% of finance costs allowable as in the past, and 50% gets only 20% tax relief
* 2019/20 25% of finance costs allowable as in the past, and 75% gets only 20% tax relief
* 2020/21 No finance costs allowed against rental profits, 100% gets a maximum 20% tax relief

The new rules will not affect landlords who pay basic rate tax on their income, but will impact landlords who are either pushed into higher rate tax as a result of this new method or are already higher rate tax payers.

**Rent a Room Relief**

There is an increase in the rent a room relief from £4,250 per year to £7,500 per year from 6 April 2016.

Rent a room relief is available to individuals who let out a room (or rooms) in their only or main residence and where they don’t want to claim the actual expenses against this type of income instead.

**Capital Gains Tax**

Capital gains Tax rates will be reduced from 28% (higher rate) and 18% (basic rate) to 20% and 10% respectively for the sale of most Capital Gains items. However, the reduction will not apply to the disposal of interests in residential properties that do not qualify for Private Residence Relief.

**Stamp duty**

Higher rates of Stamp Duty Land Tax of 3 percentage points above the existing rates, for purchases of additional residential properties on or after 1 April 2016 will apply.

**Income from property allowance**

From 6th April 2017, there will be a new tax-free £1,000 allowance on income from property you own. This means that the first £1,000 of income from property. Small sources of rent such as renting a driveway or loft storage will be tax free and may not need to be declared if you have no other reporting requirements. You can use this allowance instead of calculating expenses, if you prefer.

**Tips**

* The new rules on finance charges only apply to residential letting and consideration should be made to move into commercial or furnished holiday letting which are not subject to these new rules if you think that your tax bills will be significantly increased.
* Delay any expenses refurbishment expenses until after 5th April 2016, as any previously disallowed and covered by the wear and tear allowance will now be allowed.
* If you have a property portfolio, consider selling some of the properties in order to reduce borrowings. However, we would recommend you contact us for a review of the potential capital gains tax issue if you decide to sell any property.
* Commercial properties and furnished holiday lets are able to claim for the initial capital outlay on furnishings (previously covered by the outgoing wear and tear allowance) under the capital allowance regime. This could also be a consideration for moving from furnished residential lettings.
* It is possible to form a limited company to run your letting business. The new rules on finance costs do not apply to limited companies and there also may be some ongoing tax advantages of running a company. Professional advice needs to be taken first as there are other tax implications of putting properties into a company and the costs could be greater than the tax saved.
* If you have both a trade and a residential letting business then you may be able to restructure your loans so that you still get full tax relief on your loans against your trading business if the new finance costs rules are going to affect you.
* Capital Gains Tax rules favour commercial properties rather than residential, so consider these as part of your portfolio.
* Stamp duty will be higher for additional residential properties, again favouring the purchase of commercial properties.
* Review income from property to see if you can take advantage of the new income from property allowance, rather than calculation expenses. As a general rule claim the allowance if expenses are less than £1,000 otherwise claim the actual expenses.