



Residential Landlords – Loan Interest Relief

What is happening to my loan interest relief?

Residential landlords may notice a difference to their rental income tax calculations this year.

Back in 2015 new rules were introduced to restrict tax relief on loan interest and finance charges arising in respect of residential property lettings the rules are being phased in over a four year period and the first phase starts for the tax year just ended 2017/18.

What are the restrictions?

The aim is to restrict the tax relief given for loan interest and finance charges arising in connection with residential lettings to the basic rate of tax (currently 20%).

To lessen the overall impact and perhaps to allow residential landlords to rearrange their lettings finance models, the restrictions are being phased in over the next few years:-

- For 2017/18 the restrictions apply to 25% of the costs;
- For 2018/19 the restriction applies to 50%;
- For 2019/20 the restriction applies to 75%, and
- For 2020/21 all finance costs and loan interest relief will be restricted to the basic rate of tax.

Residential landlords who only pay tax at the basic rate should not be affected by the changes.

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So how does the restriction apply to my tax calculation?

Example 1:-

Tax year 2017/18

A residential landlord has earnings of £50,000 and rental income of £10,000. This means that the net rental income after expenses will be taxed at the higher rate of tax (currently 40%).

There are letting expenses of £2,000 and mortgage interest of £5,000. The tax computation on the residential letting income will be as follows:-

Rental income	10,000
Less expenses	-2,000
Mortgage interest (restricted)	
5,000 x 75%	<u>-3,750</u>
Taxable Rental income	<u>4,250</u>
Tax at 40%	1,700.00
Restricted mortgage interest	
(5,000 – 3,750 = 1,250) x 20%	<u>-250.00</u>
Tax payable on rental income	<u>1,450.00</u>

The residential landlord's tax bill for 2017/18 compared to 2016/17 has increased by £250.00!

Moving forward to the year 2019/20 the tax relief on finance charges and loan interest will be restricted to 20% on 75% of costs.

Example 2:-

Tax year 2019/20

A residential landlord has earnings of £50,000 and rental income of £10,000. This means that the net rental income after expenses will be taxed at the higher rate of tax (currently 40%).

There are letting expenses of £2,000 and mortgage interest of £5,000. The tax computation on the residential letting income will be as follows:-

Rental income	10,000
Less expenses	-2,000
Mortgage interest (restricted)	
5,000 x 25%	<u>-1,250</u>
Taxable Rental income	<u>6,750</u>
Tax at 40%	2,700.00
Restricted mortgage interest	
(5,000 – 1,250 = 3,750) x 20%	<u>-750.00</u>
Tax payable on rental income	<u>1,950.00</u>

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By the year 2019/20 the residential landlord will be paying a whopping £750.00 in extra tax compared to 2016/17. In the year 2020/21 the additional tax will be a massive £1,000 extra!

PAYING TOO MUCH PROPERTY



If you are a residential landlord and want to know how you can maximize your tax savings contact Paul Southward.