

How do the new Buy to Let tax rules affect your clients and how can you advise them?

From 6th April 2017, loan interest incurred by an individual will not be deductible from rental income for tax purposes. Instead, individuals will get tax relief on liabilities of 20% (basic rate tax).

How does this impact your clients?

Many landlords will find themselves liable for more tax as a result of the changes and may look for alternative options to protect their profit.

This example shows the impact of the changes on an individual with 1 Buy to Let property, PAYE income of £42,385.

Current Rules	
Rental income	£7,200
Costs	£1,500
Loan interest	£3,000
Minus total deductions	£4,500
Profit	£2,700
Tax payable @ 40%	£1,080

New Rules	
Rental income	£7,200
Costs	£1,500
Minus total deductions	£1,500
Profit	£5,700
Tax payable @ 40%	£2,280
Minus tax relief @ 20% £3,000 (loan interest)	£600
Tax payable @ 40%	£1,680

What alternatives are there?

1. Buy as a Limited Liability Company (LLC)

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| ✓ Profits are subject to Corporation Tax at 20% in 2016 (19% in 2017, 2018 & 2019 and 18% in 2020) | ✗ Additional tax may be payable when paying profits through dividends |
| ✓ Profit can be used to fund further BTL purchases | ✗ Any capital losses on a property cannot be offset against personal gains |
| ✓ Company is only charged Capital Gains Tax at 20% vs. 28% for individuals | ✗ LLC mortgage products are not widely available... and are usually charged at a premium |
| ✓ Higher rate tax payers can better plan timing to extract profits from the company | ✗ Company accounts filings are required Company accounts filings are required |

Remortgage/transfer

- Transfer to a LLC is a chargeable event so will be subject to Capital Gains Tax
- Stamp Duty will be payable
- If gifted or sold under value, it could be considered a Chargeable Lifetime Transfer for Inheritance Tax purposes, incurring a liability of 20%

If one partner is taxed at the lower tax rate, consider changing ownership proportions from 50:50 to increase the proportion owned by the lower rate tax payer