

Changes affecting landlords of residential properties

There have been a number of changes to property taxation and a summary of these measures is given below.

Restriction of finance costs relief for individual landlords

Finance costs include mortgage interest, interest on loans to buy furnishings, and fees incurred when taking out or repaying mortgages or loans. The change will restrict relief for finance costs on residential properties to the basic rate of income tax, and is being introduced gradually from April 2017 over four years.

Landlords are no longer able to deduct all of their finance costs from their property income to arrive at their property profits. They instead receive a basic rate reduction from their income tax liability for their finance costs. They are able to obtain relief as follows:

For 2018-19 the deduction from property income is restricted to 50% of finance costs with the remaining 50% being available as a basic rate tax reduction. From 6 April 2020 all finance costs incurred by a landlord will be given as a basic rate tax deduction.

The overall effect is shown in the table below (assuming basic rate remains at 20%):

	A % of costs allowed as deduction	B % remaining of costs subject to basic rate tax relief	C Effective tax relief at 20% on B
2017-18	75	25	5
2018-19	50	50	10
2019-20	25	75	15
2020-21 and beyond	0	100	20

There are certain circumstances which allow any excess finance costs to be carried forward to following years.

Please note that these changes do not affect furnished holiday lettings or lettings of non-residential property.

Reform of the wear and tear allowance

The wear and tear allowance for fully furnished properties has been replaced with a relief that enables all landlords of residential dwelling houses to deduct the costs they actually incur on replacing furnishings, appliances and kitchenware in the property, but excluding fixtures.

The relief given is for the cost of a like-for-like, or nearest modern equivalent, replacement asset, plus any costs incurred in disposing of, or less any proceeds received for, the asset being replaced.

Fixtures integral to the building that are not normally removed by the owner if the property is sold would not be included because the replacement cost of these would be a deductible expense as a repair to the property itself. Fixtures include such items as:

- Baths
- Washbasins
- Toilets
- Boilers
- Fitted kitchen units

Landlords no longer need to decide whether their property is sufficiently furnished to claim the new replacement furniture relief, as they had to when claiming the wear and tear allowance. This is because the new relief will apply to all landlords of residential dwelling houses, no matter what the level of furnishing.

The measure has effect for expenditure incurred on or after 1 April 2016 for corporation tax payers and 6 April 2016 for income taxpayers.

This deduction will not be available for furnished holiday lettings because capital allowances will continue to be available for them.

Rent a Room relief increase

This measure affects those who receive rental income from letting out a room or rooms in their only or main residential property. "Rent a Room receipts" is described in the legislation and includes receipts for any meals and cleaning services paid for in relation to the use of the room. It may also be relevant where an individual rents out rooms in a guest house, bed and breakfast or similar, providing that this is their main residence.

The level of tax-free income was increased to £7,500 per year from 6 April 2016. The previous limit had been unchanged at £4,250 since April 1997. When two or more people are entitled to rent a room income from the same property, the relief is halved for each person.