# The noose tightens on buy-to-let finance

Phasing in of the restriction for tax relief on finance costs began in 2017/18. The next stage takes effect on 6 April 2018. What do you need to know and how can you minimise the impact?

**Landlords - is it you?**

Since April 2017 the tax relief restriction has affected landlords of residential properties if they are individuals, partnerships or trusts. It doesn't affect companies. It also affects UK landlords letting residential property overseas and non-UK resident landlords who let property in the UK.

**Tip.** The good news is that you're not in the firing line if you're the landlord of a furnished holiday let, you're dealing in land and property, or run a development business.

**A wide effect**

The rules affect finance costs and the tax relief you can get on them. The scope is wider than commonly realised. They don't just affect mortgage interest on loans to buy property, they also cover interest on loans for general expenses or furnishings. And it's not only interest - the rules apply to tax relief for arrangement and other fees relating to loans, or costs relating to alternative finance arrangements, e.g. Sharia compliant lending.

**What's changing from April 2018?**

From 6 April 2018 the proportion of interest etc. you're allowed to deduct from your property income falls to 50% (from 75%) of the amount you pay. This reduces the tax you'll pay at basic and higher rates. For the other 50% you'll only receive basic rate tax relief.

**Calculating the tax relief.** As we've already mentioned, you can only knock off 50% of interest etc. as a deduction from your rental income. For the remainder, 20% of it can be claimed as a credit against your tax bill. However, if the credit is more than either the tax on your rental income or savings income plus dividends, the credit is limited to the lowest of these, but you can carry the excess forward to use in a later year.

**Trap.** From 6 April 2018 the higher rate threshold kicks in sooner (and therefore so does the interest etc. restriction) for Scottish taxpayers.

**What can you do about it?**

The bad news is there's no way around the rules unless you transfer your let properties to a company. Not only will this mean you escape the finance cost restriction, but it could shelter rental profits from income tax (which can be up to 45%).Corporation tax would be payable instead, but for 2018/19 it's charged at just 19%. The trouble is, transferring property can trigger other tax charges and so it might not be tax efficient overall. Therefore, take tax advice from your accountant before going down this route.

**Tip.** A more certain way to mitigate the effect of the restriction is to reduce the interest you pay, say by using savings to reduce borrowing. The interest you save on borrowing is almost certain to outweigh what you could receive from savings. However, if you want to keep access to your savings consider switching to an offset mortgage/loan.

The tax relief restriction increases to 50% on 6 April 2018. Transferring your properties to a company might be tax efficient depending on your circumstances, but take expert advice before proceeding. Otherwise, consider ways to reduce the interest you pay, for example, by switching to an offset mortgage.