

Tax Relief changes for Landlords

Tax information is based on our understanding of the proposed tax legislation as at 15 May 2017, and may be subject to change.

No information in this document should be taken as tax advice. For advice you should consult with an independent tax adviser.

Previously, landlords could deduct mortgage interest and other allowable costs from their rental income, before calculating their tax liability.

From 6 April 2020, tax relief for finance costs will be restricted to the basic rate of income tax, currently 20%. Relief will be given as a reduction in tax liability instead of a reduction to taxable rental income.

The changes started to be phased in from April 2017, as the table below shows.

Tax relief on finance costs	2016/17	2017/18	2018/19	2019/20	2020/21
Existing system	100%	75%	50%	25%	-
New system	-	25%	50%	75%	100%

Tax relief changes calculator

We've developed a calculator that you can download. This will help you understand how your profits could be affected over the next few years as the changes are phased in.

Key changes

In summary:

- The changes are being phased in over four years, starting from the 2017/18 financial year
- Mortgage interest tax relief will be limited to the basic rate of tax, currently 20%, and given as a reduction in tax liability instead of a reduction to taxable rental income
- The changes mean that the basic rate tax payers could find themselves pushed into a higher rate band as a result
- There's no impact on tax liability for landlords who remain as zero or basic rate payers, after calculating taxable income under the new rules
- Other allowable costs, on an actual cost basis, can still be deducted from gross rental income for the purposes of determining taxable income.

Potential impacts:

- Higher rate and additional rate tax payers will pay more in tax, as tax relief on mortgage interest will be limited to the equivalent level of a basic rate tax payer (currently 20%)
- With taxable income now being calculated without a deduction for finance costs, some landlords may experience an upward movement in tax bands
- It could be possible that some landlords currently making a small net profit will experience negative cash flow after tax.

Helping you understand if you're impacted

Most impacted



- Existing higher rate tax payers (40% and 45%)
- Landlords with marginal rental cover (high mortgage costs relative to rental income)
- Tax payers moving into a higher rate tax band as a result of the changes
- Landlords with strong rental cover
- Lower rate tax payers remaining in the same band and unencumbered landlords are unaffected.

Examples - How your profitability could be affected

To help you understand how the changes could affect you, we've calculated the following scenarios.

Please seek independent tax advice if you're uncertain as to how this affects your personal circumstances.

All figures used in the following examples are for illustrative purposes only. From April 2017, the income tax payable in Scotland differs from England and Wales. All examples below assume a main residency of England/Wales.

Scenario 1: No change to tax band (single property landlord)

20% tax payer	PAYE Income: £15,000
Previous position (16/17)	
Rental Income	£10,000
Mortgage Interest	£4,000
Other Allowable Costs	£2,000
Taxable Income	£4,000
Tax @ 20% due on Rental Income	£800
BTL Profit	£3,200
Future position (20/21)	
Rental Income	£10,000
Allowable Costs	£2,000
Taxable Income	£8,000
Tax @ 20%	£1,600
Mortgage interest relief (20% of mortgage interest of £4,000)	£800
Tax Due on Rental Income	£800
BTL Profit	£3,200

40% tax payer	PAYE Income: £50,000
Previous position (16/17)	
Rental Income	£10,000
Mortgage Interest	£4,000
Other Allowable Costs	£2,000
Taxable Income	£4,000
Tax @ 40% due on Rental Income	£1,600
BTL Profit	£2,400
Future position (20/21)	
Rental Income	£10,000
Allowable Costs	£2,000
Taxable Income	£8,000
Tax @ 40%	£3,200
Mortgage interest relief (20% of mortgage interest of £4,000)	£800
Tax Due on Rental Income	£2,400
BTL Profit	£1,600

Scenario 2: Portfolio landlord

20% moving to 40% tax payer	Portfolio size: 6 PAYE Income: £15,000
Previous position (16/17)	
Rental Income	£60,000
Mortgage Interest	£24,000
Other Allowable Costs	£12,000
Taxable Income	£24,000
Tax @ 20% due on Rental Income	£4,800
BTL Profit	£19,200
Future position (20/21)	
Rental Income	£60,000
Allowable Costs	£12,000
Taxable Income	£48,000
Gross tax @ 20% & 40% due	£13,200
Mortgage interest relief (20% of mortgage interest of £24,000)	£4,800
Tax Due on Rental Income	£8,400
BTL Profit	£15,600

Scenario 3: Rental cover

40% tax payer; high mortgage costs	Higher interest rate
Previous position (16/17)	
Rental Income	£10,000
Mortgage Interest	£5,500
Other Allowable Costs	£2,000
Taxable Income	£2,500
Tax @ 40% due on Rental Income	£1,000
BTL Profit	£1,500
Future position (20/21)	
Rental Income	£10,000
Allowable Costs	£2,000
Taxable Income	£8,000
Gross tax @ 40% due	£3,200
Mortgage interest relief (20% of mortgage interest of £5,500)	£1,100
Tax Due on Rental Income	£2,100
BTL Profit	£400

The Mortgage Works (UK) plc (Company No. 2222856) is a wholly owned subsidiary of Nationwide Building Society and is authorised and regulated by the Financial Conduct Authority (FCA) under registration number 189623. You can confirm our registration on the FCA's website www.fca.org.uk or by contacting the FCA on 0800 111 6768.

The Mortgage Works (UK) plc also acts as agent and mortgage administrator for Derbyshire Home Loans Ltd (Company No. 2628265, FCA No. 302586) and for E-Mex Home Funding Ltd (Company No. 02124900, FCA No. 305370). All three companies are wholly owned subsidiaries of Nationwide Building Society, are registered in England and Wales with their registered office at Nationwide House, Pipers Way, Swindon, SN38 1NW and are authorised and regulated by the FCA. Most buy-to-let mortgages are not regulated by the FCA.

The Mortgage Works (UK) plc, Portman House Richmond Hill, Bournemouth, BH2 6EP. Telephone: 08000 30 40 60

Please note that for our mutual protection and to improve service standards, we may monitor and/or record telephone calls