

# Tax Relief changes for Landlords

**Tax information is based on our understanding of the tax legislation as at 13 September 2019, 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.**

Up until the 2016/17 tax year, 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 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

## 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	£12,200
Mortgage interest relief (20% of mortgage interest of £24,000)	£4,800
Tax Due on Rental Income	£7,400
BTL Profit	£16,600

### 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

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