



RENTAL PROPERTIES – TAX UPDATE FOR LANDLORDS

The UK property market, whilst cyclical, has proved over the long-term to be a very successful investment. This has resulted in a massive increase in the buy to let sector.

However, individuals letting residential property have faced a number of major changes in recent times surrounding the taxation of rental income and the disposal of residential properties.

So as to keep you fully up to date with what these changes mean, our factsheet details the key changes that have already happened and those which are being introduced in April 2020.

REDUCTION IN MAIN RESIDENCE RELIEF

For disposals that take place post 5 April 2020, the amount of main residence relief available for periods when the house is not occupied has been reduced.

Currently an individual will have the last 18 months of ownership treated as being 'deemed occupation' if at any stage they occupied the property as a main residence. This reduces the portion of the gain made on disposal that is subject to Capital Gains Tax.

For example, suppose an individual owned a property for 10 years, lived in it for 5 and made a chargeable gain on disposal of £100,000.

To start with £50,000 of the gain will be exempt (this represents the period of main residence). Then an additional £15,000 will be exempt for the last 18 months of ownership. This leaves a gain of £35,000.

From April 2020, only the last 9 months can be treated as a period of 'deemed occupation'. Therefore, the available relief for the period of 'deemed occupation' will be reduced to £7,500. This results in a gain of £42,500.

Please see overleaf
for more details.



This factsheet has been written for the general interest of our clients. It provides only an overview of the regulations in force at the date of publication. It is therefore essential to take advice on specific issues. No responsibility for loss occasioned by any person acting or refraining from action as a result of the material contained in this leaflet can be accepted by the firm.



Thompson Jenner LLP
Chartered Accountants
Business Advisers | Tax Consultants

1 Colleton Crescent
Exeter, Devon, EX2 4DG.

Tel: 01392 258553
Fax: 01392 412094
Email: exeter@tjllp.com

28 Alexandra Terrace
Exmouth, Devon, EX8 1BD.

Tel: 01395 279521
Fax: 01395 272384
Email: exmouth@tjllp.com

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REPORTING THE DISPOSAL OF A RESIDENTIAL PROPERTY

From April 2020, disposals of residential property will need to be reported within 30 days from when the sale was completed. The reporting is required for any disposals of residential property that will result in a capital gains tax charge.

This means gains eligible for full Principal Private Residence Relief (i.e. property owner occupied throughout ownership), or any gains that fall within an individual's annual exemption (currently £12,000) will not need to be reported in this timeframe.

Before this date UK resident individuals only need to declare these types of disposals on the Tax Return for the year in which the disposal took place.

Furthermore, any capital gains tax due on the disposals of residential properties will also be due for payment 30 days from the disposal date. For disposals pre April 2020 this is due on the 31 January following the tax year in which the disposal took place.

If you are planning to sell a property after this date you will need to gather your full costs records in advance of disposal so that you minimise any capital gains tax liability that may arise.

REMOVAL OF LETTINGS RELIEF

Lettings relief is currently available to individuals who sell a property, that was at one stage their main residence and at any other stage was let out.

The relief available to an individual is the lower of:

- Gain in period when property was main residence
- Gain Attributable in the let period
- £40,000

From April 2020, lettings relief isn't available for landlords who do not occupy the property when it was let (which is the majority of cases in which this relief currently applies).

Therefore, a married couple, could lose up to £80,000 (£40,000 X 2) of Capital Gains Tax relief as a result of this change.

The above could lead to an increase of up to £22,400 in the overall amount of Capital Gains Tax due (£80,000 X 28%).

ADDITIONAL STAMP DUTY LAND TAX (SDLT)

Purchases of additional rental properties from April 2016 are subject to an additional 3% SDLT for each SDLT band it falls into.

This means that if you seek to add to your residential property portfolio you will be paying more SDLT than you may be first envisaged.

There is a possibility to recover the SDLT charged. However, this only applies in instances when the purchase relates to the replacement of a main residence which was sold within three years. So, it won't apply in instances whereby an individual is increasing their property portfolio.

MORTGAGE INTEREST PAYMENTS

It used to be the case that these payments were fully deductible against taxable profits.

However, the allowable reduction has already been restricted (only 50% payments are deductible) against rental profits in 2018/19.

From the 2019/20 tax year only 25% of these payments are deductible against rental profits and by 2020/21, no mortgage interest payments are deductible against rental profits.

Note, a 20% tax reducer is available based on the mortgage interest payments made. This means non-basic rate taxpayers will have less tax relief available. These changes could also push more individuals into higher tax bands.

Landlords face a range of accountancy and tax issues which have never been more complex than now to navigate and which may have an impact on your tax position and future decision making.

Thompson Jenner LLP has a dedicated team with the experience and specialist skills required to help you review your individual tax position. If you would like to meet to discuss the tax planning services which we are able to provide, please contact us on 01392 258553 or 01395 279521 to arrange an appointment.



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