



FOCUS ON

Property Tax Changes

Recently there have been a number of important changes to the way in which income from properties are taxed. Predominantly these changes affect owners of residential properties and we examine these in this newsletter along with the changes to Stamp Duty Land Tax affecting commercial properties.

1. Residential Properties

Relief for furnishings and fittings

From 6 April 2016, the wear and tear allowance available to landlords of furnished residential lettings was abolished and replaced with a deduction for the actual cost of replacing furnishings. The wear and tear allowance was given at 10% of the net rents received in respect of fully furnished let properties. Some landlords do not spend this amount over the course of a year on actual renewals costs and accordingly may see an increase in taxable rental profits.

Relief for mortgage and loan interest

The biggest change where landlords will see the effect will be implemented from April 2017, when we will start to see a restriction on tax relief on finance costs such as mortgage interest. This change is being phased in over a 4 year period and will restrict relief on finance costs to the basic rate of tax, thus having the biggest impact on higher rate tax payers.

The method in which tax relief on finance costs is received will also be changing, even for basic rate taxpayers, which could impact the amount of child benefit and tax credits received. It could also see previous basic rate tax payers pushed into higher rates of tax.



Example 1

In the example below a taxpayer with employment income of £40,000 a year, rental income of £15,000 a year and finance charges of £9,000 a year would pay an extra £1,800 in income tax after the changes are fully implemented. As the taxpayer's income now exceeds £50,000 child benefit will be restricted by 50% leaving the taxpayer worse off by £2,338 in total.



	Current Rules £	Budget Proposals £
Net Income	46,000	55,000
Personal Allowance	(11,000)	(11,000)
Taxable income	35,000	44,000
Tax at 0%	0	0
Tax at 20%	6400	6400
Tax at 40%	1200	4800
	7600	11200
Less tax relief on interest		-1800
Net tax liability	7600	9400
Child benefit (Estimate)	1076	538

Please note these changes do not affect owners of furnished holiday lettings.

Capital Gains Tax

Landlords of residential properties will also see a capital gains surcharge when they come to sell their properties. From April 2016 the capital gains tax rate was cut to 10% and 20% depending on your tax rate band. These cuts are not across the board and gains on residential property i.e. second homes and buy to lets will continue to be paid at 18% and 28%, again depending on tax rate bands.

2. Stamp Duty Land Tax

In March 2016 the way in which stamp duty land tax is charged was reformed. Rather than taxing the full purchase price at a related rate, it will now be charged on the proportion of the purchase price which falls within each rate band.

Residential Property

With effect from 1 April 2016, purchasers of a second home or buy to let residential properties will pay an increased rate of stamp duty land tax where they own more than one property. The surcharge will not apply when the main residence is replaced. The new rates for purchasers with an existing property will be:



Purchase Price Banding	Current Rates	New Rates from 1 April 2016
Up to £125,000	0%	3%
£125,001 to £250,000	2%	5%
£250,001 to £925,000	5%	8%
£925,001 to £1,500,000	10%	13%
Over £1,500,001	12%	15%

Commercial Property

The new rates for freehold purchases and leases premiums of non residential or mixed property are:

Non Residential or Mixed Property	Rate
Up to £150,000	Nil
£150,001 - £250,000	2%
£250,001 or more	5%

If you would like more detailed advice on how the changes will affect you personally please contact us tax@broomfield.co.uk and we can look at the planning opportunities available to you.

Cardiff

Ty Derw
Lime Tree Court
Cardiff Gate Business Park
Cardiff
CF23 8AB

Tel: 029 2054 9939

Newport

Waters Lane Chambers
1-3 Waters Lane
Newport
NP20 1LA

Tel: 01633 265828

Swansea

Charter Court
Phoenix Way
Enterprise Park
Swansea
SA7 9FS

Tel: 01792 790444

Monmouth

6 Agincourt Street
Monmouth
NP25 3DZ

01600 712171

MHA Broomfield Alexander is a trading name of Broomfield & Alexander Limited, a limited company registered in England under company number 02693400. Our registered office is: Ty Derw, Lime Tree Court, Cardiff Gate Business Park, Cardiff CF23 8AB where a list of the directors' names is available for inspection. Registered to carry on audit work in the UK and Ireland by the Institute of Chartered Accountants in England and Wales. Details about our audit registrations can be viewed at www.auditregister.org.uk for the UK and www.cro.ie/auditors for Ireland under reference numbers C002531501 and C001092777. An independent member of MHA, a national association of UK accountancy firms. The term 'partner' or 'partners' indicates that the person (or persons) in question is (or are) a member(s) of Broomfield & Alexander Limited or an employee or consultant of its affiliated businesses with equivalent standing and qualifications. Partners and directors acting as administrators or administrative receivers contract as agents and without personal liability.

MHA Broomfield Alexander is an independent member of Baker Tilly International. Baker Tilly International Limited is an English company. Baker Tilly International provides no professional services to clients. Each member firm is a separate and independent legal entity and each describes itself as such. MHA Broomfield Alexander is not Baker Tilly International's agent and does not have the authority to bind Baker Tilly International or act on Baker Tilly International's behalf. None of Baker Tilly International, MHA Broomfield Alexander, nor any of the other member firms of Baker Tilly International has any liability for each other's acts or omissions. Further information and links to the member firms can be found via our website www.mha-uk.co.uk. Arrandco Investments Limited is the registered owner of the UK trade mark for Baker Tilly and its associated logo.