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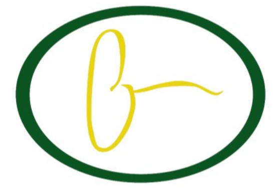


NEWSMILL

Buy-to-let – restriction on interest relief

If you are a landlord and borrow to fund your property portfolio, you could see your tax bills increasing from April 2017, following an announcement in the Summer Budget.

Mortgage interest payments have always been available to offset your gross rent receipts when calculating taxable profits, and relief is therefore given at whichever rate of tax is applicable to you. From April 2017, a new restriction will be slowly introduced which will eventually see relief for the financing cost limited to basic rate relief (currently 20%). The measure will be fully implemented by 2020/21.

In the interim years, relief will be given by using a mix of direct deduction of part of the interest payments, and a basic rate tax reduction, shifting the balance from the former to the latter in each year.

As an illustration, in the 2017/18 year, a landlord pays £10,000 in mortgage interest on her buy-to-let portfolio. Using the new rules, she will be able to deduct £7,500 directly from her gross rental income. She will then need to deduct £500 (i.e. £2,500 x 20%) from her tax liability. In 2020/21 the deduction would simply be £2,000 (i.e. £10,000 x 20%).

The tax reduction will be restricted if your rental profits or total income are relatively low, with any unused finance cost being available to carry forward and used in a future year.

This will make letting a property, where finance has been used to raise capital, relatively more expensive.

Whilst the change is some way from taking full effect, it does allow time for planning and possible restructuring of debt where appropriate and possible.

The end of wear and tear

The tax treatment of tax relief for furnishings in furnished and unfurnished lettings is being aligned.

Currently, landlords of unfurnished lettings cannot claim the cost of replacing or renewing items of "plant" such as beds, sofas and fridges.

Landlords of fully furnished lettings are able to claim 10% of adjusted gross rents as a wear and tear allowance each year.

From April 2016, all landlords will be able to claim the renewal cost (but not initial purchase) of furnishings and white goods regardless of whether the lettings are furnished or unfurnished.

HMRC are consulting on the exact workings of the new tax relief. It will cover furniture and appliances, linen, curtains and floorings, cutlery and crockery.

If you are a landlord who is considering making expenditure on qualifying items, you would be advised to delay this where possible until after April 2016, as it will then attract the new tax relief accordingly.

Tax Calendar

September 2015

19/22 Monthly PAYE/Class 1 NICs/student loan and CIS payments due.

19th for non-electronic payments, 22nd for online payments

October 2015

1 Annual increase in national minimum wage.

5 Deadline to notify chargeability for Income Tax/Capital Gains Tax for 2013-14 if not registered for Self Assessment. Complete form CWF1 for self-employment or form SA1 for non self-employed income, or form SA401 for partners.

19/22 Monthly PAYE/Class 1 NICs/student loan and CIS payments due.

19th for non-electronic payments, 22nd for online payments

31 Deadline for paper submission of Self-Assessment tax returns for tax year ended 5 April 2014.

November 2015

2 Quarterly submissions of P46(car) (for employees whose car and/or fuel benefit has changed in the quarter to 5 July).

19 Monthly CIS payments due.

19/22 Monthly PAYE/Class 1 NICs/student loan payments due.

19th for non-electronic payments, 22nd for online payments.

December 2015

19/22 Monthly PAYE/Class 1 NICs/student loan payments due.

19th for non-electronic payments, 22nd for online payments.

January 2016

05 End of tax quarter.

19/22 Third quarter PAYE and Class 1 NICs payment deadline.

Monthly PAYE/Class 1 NICs/student loan and CIS payments due.

19th for non-electronic payments, 22nd for online payments.

31 Deadline for online submission of Self Assessment tax returns for tax year ended 5 April 2014

This newsletter is written for the general interest of our clients and is not a substitute for professional advice. Please contact Millhall Consultants for specific advice before taking any action.

Dividend tax overhaul

The chancellor has proposed a major change in the way that income from dividends is taxed from April 2016. The 10% notional tax credit attaching to dividends will be removed. Whereas you currently pay no income tax on dividends if you are a basic rate taxpayer, from 6 April 2016 everyone will be entitled to a new dividend allowance. This means that you can receive up to £5,000 in dividends each year tax-free, regardless of whether you are a basic, higher, or additional rate taxpayer.

If you receive dividends in excess of £5,000 per year, the excess will be taxed at new dividend tax rates. These are 7.5%, 32.5% and 38.1%, and correspond to the basic, higher and additional rates respectively.

The new allowance is not a deduction from income, and so dividends within the allowance still count as part of your total income towards the basic rate band.

The change will have a significant impact on the owners of smaller companies who as director-shareholders pay a small salary with their remaining income as dividends.

For example:

John pays himself £30,000 per year from his own company by paying a salary equal to his tax personal allowance (£11,000 in 2016/17) and taking the balance in dividends. His tax on his dividend income for 2016/17 (ignoring other income) will be as follows:

£5,000 taxed at 0% - covered by dividend allowance

£25,000 taxed at 7.5% = £1,875

If he had paid the same dividend under the old rules he would not have a tax liability.

If you are run a company and you pay dividends in excess of £5,000 you may wish to review your dividend strategy, please contact us now for further advice.

No more deductions for goodwill

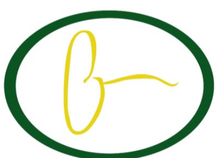
In his Summer Budget 2015 the chancellor announced that from 8 July 2015 companies will no longer be able to claim tax relief on the cost of purchased goodwill. Purchases made after 8 July 2015 already subject to an unconditional binding contract signed before that date will not be affected.

Goodwill is the difference between the purchase price (i.e. the value of the business entity) and the aggregate value of its tangible assets less any liabilities acquired. A purchasing company must, under accounting practice write off the cost of goodwill in its accounts over its estimated useful economic life. Under the old rules it would also obtain tax relief on the amount of the write off.

The change will affect the sale and purchase of a trade and/ or its assets from both a company and an unincorporated business, such as a sole trader or partnership. The measure has no effect in the case of a purchase of shares.

Unfortunately the removal of tax relief for goodwill does not change the fact that goodwill still exists and needs to be paid for. The denial of tax relief effectively means that the cost of buying a business will increase, however it is more likely that buyers will simply offer a lower price in order to compensate them. Business buyers and sellers may need to re-consider their strategy: we are happy to discuss this further with you if you are either a potential buyer or seller.

If you have any queries in relation to any of the topics covered in this newsletter then please do not hesitate to contact us.



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