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Property Tax

Restricting Loan Interest Relief for Landlords

Until 2016/17, landlords could deduct the mortgage interest they paid in the year from their gross rental income before they paid tax. This meant that for those who paid tax at the higher or additional rates, the tax saving could be as high as 40% or 45%.

However, from April 2017, these rules were reformed and the amount of tax relief landlords can get on finance costs including mortgages and loans, is restricted to the basic rate of income tax (20%). No relief is available for capital repayments of a mortgage or a loan. This restriction does not apply to landlords of furnished holiday lettings or commercial property, nor does it apply to companies who hold rental property.

This change is being phased in gradually from April 2017, over 4 years. The restriction in the relief is currently being phased in as follows:-

Tax year	% of finance costs deductible from rental income	% of finance costs given as basic rate reduction
2017-18	75%	25%
2018-19	50%	50%
2019-20	25%	75%
2020-21	0%	100%

Basic rate taxpayers should not assume that these new rules will not affect them. Given that taxpayers will now be taxed on their income rather than profits before any relief is given for finance costs, taxable income will increase which may affect entitlement to the personal allowance, tax credits and child benefit. This will require careful analysis.

In light of the changes, taxpayers with borrowings against rental property should consider whether their rental business is still viable and, if not, may wish to consider the following:

- Incorporation
- Selling up
- Reducing finance

If you have any queries or require any advice please contact our Residential Taxperts on 01382 312100 for specific advice on how this could affect you.

Want more information? Talk to the **EQ Tax**perts today.