

Caerphilly Private Landlords Forum

11th April, 2016

Right to Rent Checks for Landlords

Brought into force on 1st February, 2016 in England and applies to new tenancy agreements commencing on or after that date. Under the rules landlords who fail to check a potential tenant's "Right to Rent" will face a civil penalty of up to £ 3,000 per tenant. There are a number of steps that must be carried out including checking the original documents that allow the tenant to live in the UK.

Rent Smart Wales

The law relating to the private rented housing sector in Wales is changing under the introduction of the Housing Act (Wales) 2014 which makes law the Welsh Government's intent to modernise and professionalise the sector.

By November 2016, all landlords and letting agents must register with the new regulator, Rent Smart Wales. Anyone who directly deals with tenants in any way must be licensed. From November 2016 it will be a criminal offence to rent a property to tenants or act as a letting agent without a Rent Smart Wales Licence. A Licence lasts 5 years, but before being granted a person must show that they are "fit and proper" and pass a Rent Smart Wales Approved Training programme.

Wear & Tear Allowance

Up to 6th April, 2016 it was possible to claim Wear and Tear Allowance of effectively 10% of turnover on a property that was let fully furnished. This allowance was available irrespective of whether any replacements were made, but in return no claims were allowed for expenditure made in actually replacing furniture, equipment and soft furnishings.

From 6th April, 2016 Renewals Allowance, unlike Wear and Tear Allowance, which only applied to fully furnished property a new tax deduction can be claimed by any landlord who includes one or more items of furniture or equipment in a property. It applies only to renewals of an item which doesn't become part of the structure of the building, so that freestanding kitchen units would be allowable but not fitted units.



www.fooks.co.uk
email service@fooks.co.uk
Tel 01443 834047

Where a property is let for the first time on or after 6th April, 2016 and furnishings are purchased, the allowance can be claimed, (as it is not a replacement) but if a replacement item is purchased for use in a property previously let before or after 6th April, 2016 it would be allowable.

If there are any sales proceeds generated by the sale of an item on which Renewals allowance is claimed than those proceeds reduce the allowable cost of the replacement.

Mortgage Interest

As announced in the Summer Budget buy to let landlords will no longer be able to claim full tax relief on finance costs. It will be reduced by 25% from 6th April, 2017 and reduced year by year by 25% until it is totally removed by 5th April, 2020. This will be gradually replaced by a "tax reducer", which will be set at a maximum of 20% of the finance costs by 2020/21.

This means that basic rate taxpayers will be least affected as they will still receive a basic rate reduction, however as fewer expenses are claimed, the actual rental profits could be higher than under the current regime and this could push some basic rate taxpayers into the higher rate tax band and higher rate taxpayers into the additional rate band.

The finance cost relief restrictions do not currently apply to Limited Companies so in certain circumstances it may be worth considering incorporation of sole trader/partnerships, though there are potential implications for Capital Gains, SDLT and the new "Dividend Tax" which may outweigh the benefits.

Landlords will be able to obtain relief as follows:

- in 2017 to 2018 the deduction from property income (as is currently allowed) will be restricted to 75% of finance costs, with the remaining 25% being available as a basic rate tax reduction
- in 2018 to 2019, 50% finance costs deduction and 50% given as a basic rate tax reduction
- in 2019 to 2020, 25% finance costs deduction and 75% given as a basic rate tax reduction
- from 2020 to 2021 all financing costs incurred by a landlord will be given as a basic rate tax reduction



Example 1.

	2015/16	2020/21
	£	£
Gross rents	7,200	7,200
Other deductible costs	-1,000	-1,000
Interest on mortgage	-2,500	
Net taxable profit	3,700	6,200
Tax at 40%	1,480	2,480
Less interest relief at 20% on £2,500		-500
Net tax liability on rental income	1,480	1,980
Tax increase		500
Effective rate on actual rental profit	40.00%	53.51%

Example 2

	£	£
Gross rents	600,000	600,000
Other deductible costs	-	-200,000
Interest on mortgage	350,000	
Net taxable profit	50,000	400,000
Personal allowances x2	-21,200	0
Taxable income	28,800	400,000
Tax at 20%	5,760	12,714
Tax at 40%		94,572
Tax at 45%		45,000
Less interest relief at 20% on £350,000		-70,000
Net tax liability on rental income	5,760	82,286
Tax increase		76,526
Effective rate on actual rental profit	11.52%	153.05%

Stamp Duty Land Tax

As of 1st April, 2016 a STLD surcharge will apply to all purchases of Buy to Let or any second properties of 3% above the standard rate for Main Residence properties.



www.fooks.co.uk
 email service@fooks.co.uk
 Tel 01443 834047

The rates applicable are:

Value Up To:	£ 40,000	NIL
£ 40,001 To:	£ 125,000	3%
£ 125,001 To:	£ 250,000	5%
£ 250,001 To:	£ 925,000	8%
£ 925,001 To:	£ 1,500,000	13%
Over £ 1,250,000		15%

with each rate applying to the individual band, not at the highest rate as previously applied.



www.fooks.co.uk
email service@fooks.co.uk
Tel 01443 834047

