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Residential property tax relief - Going, going, gone!

Going, going, gone. These words conjure up many images. For some, of a certain generation, it is the 1974 Bob Dylan track. For others it is the words uttered at the end of an auction. As a result of the last two Budgets announced by George Osborne, it also applies to many of the beneficial tax regimes applicable to residential property investors in the UK. The Chancellor has brought down the gavel on a number of those reliefs.

Capital gains tax

The first of these announcements came in April 2015 when capital gains tax charges were introduced for non-residents owning UK residential property. Broadly, any gains incurred prior to April 2015 are excluded. After that date, capital gains tax will apply to any gains arising on sales or transfers subject to the annual exemption (currently £11,100 for 2015/16). If you are a non-resident property owner it is sensible to obtain an open market valuation for any UK residential property that you owned at 5 April 2015.

Stamp duty land tax

The Chancellor is due to deliver the Budget on Wednesday 16 March where he is expected to give more detail on the additional rate of stamp duty land tax (SDLT). This comes into effect on 1 April 2016. The new rate has increased SDLT by 3% on any additional properties, second homes or buy-to-lets, where the value exceeds £40,000. Many people are attempting to complete their purchases prior to that date but for those not able to do so, provision will be needed for additional tax. The Government is also consulting on bringing forward the SDLT payment date to within 14 days of completion. This would not come into effect until next year.

Income relief tax

The legislation that will have the greatest impact on residential property investors comes into effect on 6 April 2017. There is a major overhaul to the income tax relief on borrowings where properties are held in the name of an investor rather than a company or partnership. This is commonly referred to as mortgage interest tax relief. Higher rate and additional rate taxpayers that have investment properties subject to large borrowing will be most affected.

At present any interest incurred on the borrowing is deducted directly from the income. From 6 April 2017, on a sliding scale until 2020/21, that interest will no longer be an allowable deduction against the rental profits. Instead there will only be a 20% income tax reduction. This could lead to an eye-watering difference in your tax bill and in some cases, the effective rate of tax on the real rental profit could easily exceed 100%.

These changes will not apply to the owners of furnished holiday lettings or landlords of rented commercial property. It is important to seek legal advice as early as possible with a view to planning and structuring your property investments in such a way as to minimise the impact of the withdrawal of full income tax relief.

What next?

There appears to be a common theme throughout the recent legislation: to deter individuals from investing in residential property. Given the increasing complexity of the tax system and the possible changes to pensions, life is only set to get more complicated.

We shall wait to see what Mr Osborne has in store on 16 March.

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