

A question of property

Due to tax changes over the last few years many landlords have seen their profits reduce and this trend is set to continue. Unfortunately this may inevitably lead to an increase in rents for some tenants as landlords struggle to cover costs.

From April 2017 the restriction on finance cost relief for landlords began to take effect and is being phased in over a 4 year period. Now 3 years on – there is a 75% limit of finance costs at the 20% basic rate for 2019/20, up from 50% the year before. The mechanism of the tax is the removal of landlords’ ability to deduct the cost of their mortgage interest from their rental income when they calculate a profit on which to pay tax. In effect, landlords are taxed on their turnover rather than their profit, meaning that tax will be payable on non-existent income.

Since June 2019, it is no longer permissible to charge tenants letting fees. Letting agents are therefore more likely to charge landlords higher set up fees and increase their management fees. Deposits are also now capped at 5 week’s rent for properties rented at an annual rent of less than £50,000.

From April 2020, final principal private residence relief (PPR) will be cut again, with letting relief also severely curtailed.

Principal private residence relief

For landlords who have at some point lived in their rental property as a main residence, then a proportion of the gain arising on sale is exempt and will be based on the period they occupied the property. In addition to the actual periods spent living on the premises, the final months of ownership are also exempt.

The exemption used to be the final 36 months of ownership but has now been cut to 18 months. From April 2020, there will be a further reduction to 9 months. However, the final period exemption will remain 36 months for disabled people and those in long-term care homes.

Letting relief

Letting relief provides an additional exemption where a landlord has at some point let out a property which has been their main residence. The exemption is a maximum of £40,000 of the gain, but cannot be more than the amount of PPR exemption. The relief can be up to £80,000 for a jointly owned property.

From April 2020, the letting exemption will only apply where the owner of the house shares occupancy with the tenant, so there will no longer be any exemption where a whole house is let.

For help and advice on this subject please speak to your accountant or tax advisor.

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