Summer 2016

eo taxation news

regular news from our specialist tax team

You may be aware of a number of recent tax changes affecting landlords. In light of these changes, it is important to consider how you may be affected and what planning opportunities are available to minimise your tax exposure going forward.

Restriction to Relief for Finance Costs

Currently, landlords can deduct the mortgage interest they pay in the year from their gross rental income before they pay any tax. This means that for those who pay tax at the higher or additional rates, the tax saving can be up to 40% or 45%.

However, from April 2017 the amount of tax relief landlords can get on finance costs, including mortgage interest, will be restricted to the basic rate of income tax (20%). This restriction only applies to landlords of residential property.

The restriction will be phased in over four tax years from 2017/18, and therefore will not be implemented in full until 2020/21.

Taxpayers should not assume the restriction does not affect them simply because they have historically been basic rate taxpayers. Due to the

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Major changes for landlords (cont.)

way in which relief is now given, a taxpayer's total income will now increase, which may result in restrictions to the personal allowance or income falling into the higher rate tax band.

In light of the changes, taxpayers with borrowings against rental property should consider whether their rental business is still feasible; if not, they may wish to consider selling their properties, reducing or restructuring their borrowings, or incorporating.

Cessation of the Wear and Tear Allowance

From 6 April 2016, the 10% wear and tear allowance was abolished and replaced with a new relief available to all landlords of residential property, whether furnished or unfurnished.

Landlords will now be able to claim the actual costs of replacing furnishings. The initial costs of furnishing a property are not allowable. Examples of items which can be claimed under the new regime include the following:

- Beds
- Sofas
- Televisions
- Fridges and freezers
- Carpets and floor coverings
- Curtains
- Cutlery and crockery

This is good news for landlords of partly furnished or unfurnished properties where no relief is currently available for these costs.

Replacements must be on a like for like basis. Any element of improvement will not be allowable under the new rules, and only the cost of the 'like for like' element will be an allowable deduction.

Capital allowances will continue to apply to furnished holiday lets.

Rent-a-Room Limit

The amount of rental income taxpayers can receive tax free from renting a room in their main home has been £4,250 for a number of years. This limit increased to £7,500 from 6 April 2016. The limit is halved where more than one person receives rental income from the same property, such as a property under joint ownership.

Land and Buildings Transaction Tax (LBTT) – Additional Dwellings Supplement

From 1 April 2016, individuals buying a second home or a buy-to-let in Scotland over the value of £40,000 will incur a 3% LBTT surcharge on the consideration payable.

This is known as the 'Additional Dwellings Supplement' (ADS) and is payable on top of the LBTT due on the purchase. The surcharge applies even where the consideration is below the LBTT nil rate band of £145,000, but is in excess of £40,000.

The ADS is reported on the LBTT return, and is payable along with any LBTT due within 30 days of the effective date of the transaction.

You will not have to pay the ADS if you are replacing your main residence. However, you should be aware that if you purchase a new home and at the completion date you have not yet sold your current home, you will be caught by these new rules and will be required to pay the ADS. However, if you sell your original home within 18 months, you will be able to claim a refund of the ADS.

The ADS applies to the purchase of any residential property by a company.

Full relief is available from the ADS where an individual or a company is buying six or more residential properties in one transaction.

There are many factors to take into account when considering tax planning for property businesses and professional advice should be taken. The recent legislative changes for landlords mean that taking advice specific to your individual circumstances is essential. If you would like any help in this respect, please get in touch with your usual EQ contact.

Making tax digital

Over the remainder of the decade, HMRC are pushing on with plans to radically overhaul the taxation system in the UK. Our next tax bulletin will feature this in more detail but it's safe to say that this is the most radical change to the UK taxation system since the introduction of self assessment 20 years ago.

The change for individuals will be to remove the need for a tax return to be prepared and instead require a digital account to be populated with information (some of this may be done by HMRC with items such as P60 information).

For businesses, and landlords, a quarterly online submission will require to be made, which will see more red tape for small business, despite HMRC protestations to the contrary.

Changes are expected to commence from 2018 and it remains to be seen whether the Brexit vote will have any impact on these plans. For more information, please contact David Morrison at **david.morrison@eqaccountants.co.uk**

2015/16 payments on account

If you are due to make payments on account (POA) in respect of your 2015/16 tax liability, the deadline for payment of your second POA is 31 July 2016. HMRC have started issuing self assessment statements to taxpayers in respect of liabilities due.

The tax due is equal to half of your anticipated tax liability for the year ended 5 April 2016 and is based on your 2014/15 income. The first of your 2015/16 POA should have been paid in January 2016. HMRC charge interest if you don't pay any tax you owe on time, and the later you make payment after the due date, the more interest you'll have to pay. It is therefore important to pay any tax due as soon as you can.

It may be possible to reduce your payments on account if your tax liability for 2015/16 will be lower than your 2014/15 liability. This may be because:

- your 2015/16 income was lower, for example due to lower business profits
- your 2015/16 allowances or reliefs will be higher, for example because you have made higher pension contributions or gift aid contributions
- more of your income was taxed at source

Interest will be charged if you reduce your payments on account too far and pay less than you need to, so advice should be sought from your tax advisor before reducing payments on account.

If you would like further advice on reducing your POA please speak to your usual EQ contact.

Meet the team
Ross Oliphant

1. How long have you worked with EQ?

I joined EQ on 1 May 2016 as a partner in the Glenrothes office. I had previously been a partner with another firm of accountants, splitting my time between Fife and Edinburgh.

2. What taxes do you specialise in?

My experience and interest is in personal and corporate taxation. I advise a range of clients across various industry sectors and assist directors, shareholders and business owners to meet their commercial and life goals in the most tax efficient manner.

3. What do you enjoy most about your job?

Throughout my career I have enjoyed advising businesses as they grow, ensuring tax efficiencies and savings are at the forefront of any business growth strategy, and structuring the business in the most tax efficient manner to ensure the long term objectives of the owners are met. In addition, I enjoy helping the owners protect what they have worked hard to create by ensuring all available tax allowances and opportunities are considered.

4. What do you think are the main components of good tax advice?

Our tax system is complicated and taxes are high. To provide good tax advice, you must have a comprehensive knowledge of the tax rules, know your clients really well and understand your clients' objectives.

EQ tax team out and about

We have had a busy few months delivering a number of tax seminars throughout Scotland.

These have included:

- a presentation to 175 attendees and exhibitors at The Agency Business 2016 - Scotland's Annual Letting Agent Conference in Glasgow on landlord tax changes.
- presentations to over 100 attendees at a number of seminars for local banks, solicitors, financial advisors and other intermediaries covering Current Issues in Taxation.

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