The impact of your Buy to Let transaction on your tax position - Client Declaration

Firm name: ABRAHAM ASSOCIATES

From April 2017, the Government is reducing the amount of tax relief on interest costs incurred by individual landlords. This will be phased in over four years and by 2020 the relief you are able to claim on mortgage interest payments will be restricted to basic rate tax. These changes could mean higher Income Tax liabilities for individual landlords and a potential reduction in overall rental profit. For basic rate taxpayers it could also move them into a higher rate of tax as illustrated in the example overleaf.

The changes do not affect residential property owned through a company. Therefore, some landlords will elect to make Buy to Let investments through a Limited Company as a more tax efficient way of owning buy to let properties.

As a mortgage adviser and an Appointed Representative of Openwork I am not able to give you advice in relation to taxation. However, it is important that you are aware of the changes and how they will impact on you.

Before you proceed with your Buy to Let Mortgage I recommend that you:

1. Seek independent tax advice from your accountant or specialist tax adviser in regards to your Buy to Let arrangements
2. Make sure you know the cost implications to your tax bill and look up the full details of the changes on the Government website www.gov.uk/

Declaration

I/We understand the advice you are providing is limited to Buy to Let mortgage product(s) and that you are not providing me/us with tax advice. I/We confirm that you have given me/us the Buy to Let Factsheet in relation to the buy to let property in my/our own name(s):

☐ You have told me/us to seek independent professional tax advice but I/We have elected not to do so. I/we am aware that you cannot provide me/us with tax advice and I/We have made the decision to proceed without this advice. I/We understand fully the proposals for interest relief and have considered the impact on my/our future tax position.

Client Name(s) ……………………………………….

Signed: ………………………………………..

Dated: ……………………………………….

An example of the impact before and after the changes

John is an individual with self-employment income of £35,000 and rental income from residential property of £18,000 per annum. His mortgage interest is £8,000 per year.

Before restriction (2016 to 2017)

Self-employment income		**£35,000**
Property income calculation		
• Rental income	£18,000	
• Deduct finance costs	-£8,000	
• Deduct other allowable expenses	-£2,000	
Property Income		**£8,000**
Total Taxable Income		**£43,000**

Income Tax calculation	
£11,000 x 0%	£0
£32,000 x 20%	£6,400
£0 x 40% =	£0
Final Income Tax	**£6,400**

After restriction (2020 to 2021)

Self-employment income		**£35,000**
Property income calculation		
• Rental income	£18,000	
• Deduct other allowable expenses	-£2,000	
• Finance costs are no longer deducted	0	
Property Income		**£16,000**
Total Taxable Income		**£51,000**

Income Tax calculation	
£11,500 x 0%	£0
£33,500 x 20%	£6,700
£6,000 x 40% =	£2,400
Less 20% tax reduction for finance costs (£8,000 x 20%)	-£1,600
Final Income Tax	**£7,500**

John becomes a higher rate taxpayer because of the change as his total income is more than the higher rate threshold of £45,000. John has an additional £1,100 tax to pay. If John or his partner is claiming child benefit, he may have to pay a High Income Child Benefit Charge because his total income is now over £50,000.