HGC FINANCE
mortgages, protection, wealth

VIEWPOINT

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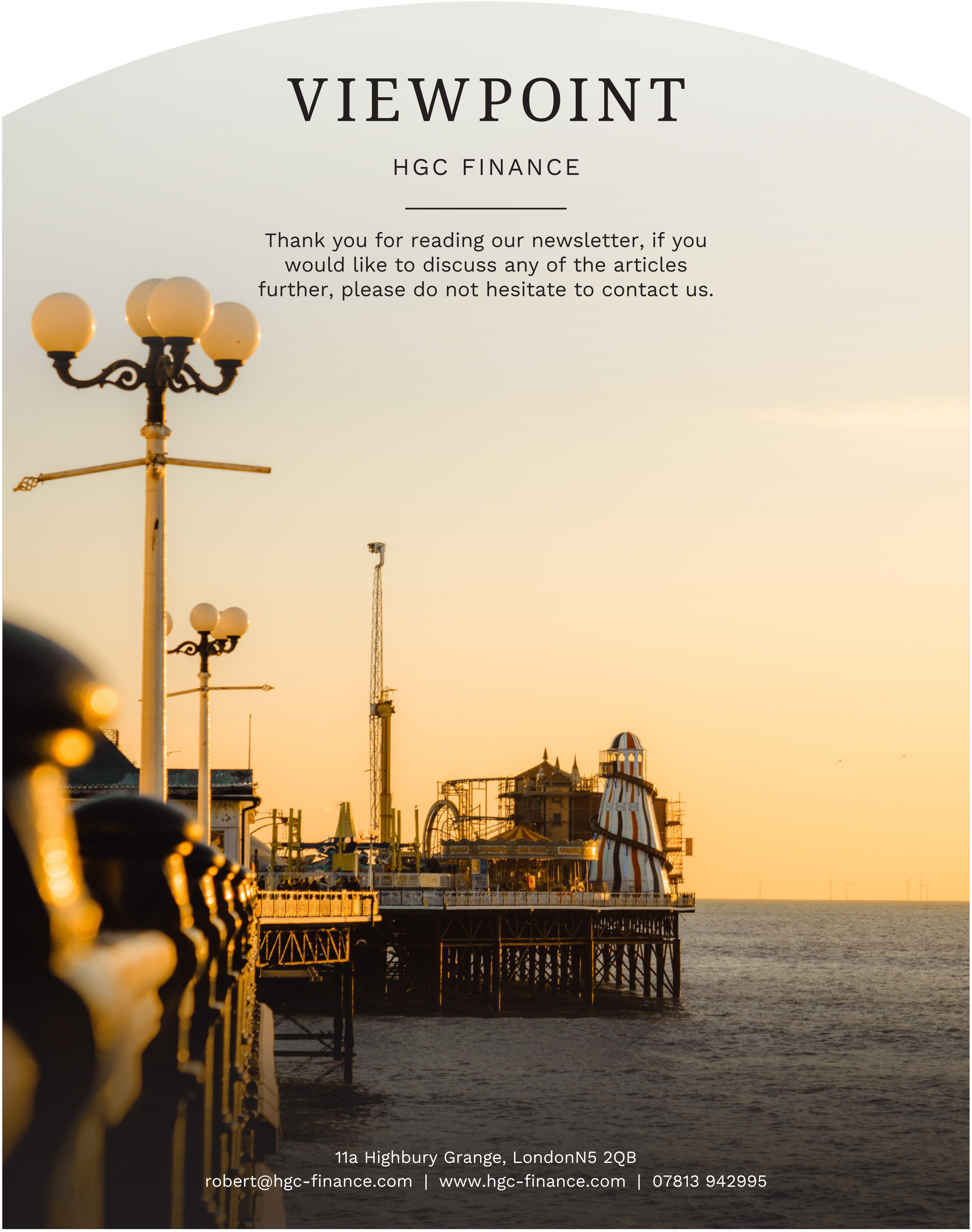
Thank you for reading our newsletter, if you would like to discuss any of the articles further, please do not hesitate to contact us.



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Buy to let as a private company

April 2020 marked the final stage of phased changes to Income Tax relief rules for landlords. Up until the 2016/17 tax year, landlords were able to deduct all mortgage interest payments and other allowable costs from their rental income before being taxed on the rest (tax paid depends on the landlord's Income Tax band).

Now, though, landlords are only entitled to a basic rate 20% tax credit on mortgage interest payments.

20%

Wait, so what's the difference?

Under the old system, a landlord might have made £12,000 in annual rental income but have paid £8,000 in mortgage interest. Now, let's say they were subject to the additional Income Tax rate of 40%. They would be looking at paying 40% of £4,000 – tax bill of £1,600.

Since April 2020, a landlord earning the same rental income and paying the same mortgage interest now faces paying 40% tax on the full £12,000 – i.e. £4,800 – and then deducting the 20% tax credit on their mortgage interest payments – i.e. £1,600 – leaving them with a higher tax bill of £3,200, double what they would have paid previously.

What about operating via a private limited company?

Well, that's what a lot of people have been talking about doing since the tax relief changes were announced. The new system only affects private landlords, which is why so many aspiring property investors are considering this option. If you set up and buy through a company, you'll be subject to Corporation Tax on your profits at a rate of 19%.

It's not for everyone

There are some downsides to operating in this way. For example, if you're trading as a company, you'll have to complete a Company Tax Return and file accounts with Companies House each year, which can be stressful to do yourself, and expensive if you hire an accountant. It can also be more difficult (and costly) to access your profits – for example, should you choose to pay it to yourself in dividends, you'll face additional tax on anything over the £2,000 dividend allowance.

Some buy to let mortgages are not regulated by the Financial Conduct Authority

Your property may be repossessed if you do not keep up repayments on your mortgage.

HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.

YOUR PROPERTY MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE