

Your property – making the most of bricks and mortar



1. If you let residential property, take action to lessen the impact of the restriction on tax relief for finance costs

The restriction is being phased in. For the current tax year, only 25% of finance costs, including mortgage interest, are deductible, and a 20% tax credit is given in their place. From next year, all tax relief on finance costs will be replaced by the 20% tax credit. The restriction can be avoided by using a limited company for new buy-to-lets, or transferring your existing property business into a company. You could consider selling some properties to pay some or all of the borrowing on the ones retained, or replacing residential properties with commercial let properties. However, be warned before taking such steps – other taxes such as CGT and land transaction charges need to be considered.

2. Plan ahead for a first property

The Lifetime ISA (LISA) and the Help to Buy ISA (only available to new investors until 30 November 2019) both provide first-time homebuyers with a government bonus of 25% on their savings. The LISA has the advantage of a higher investment limit – £4,000 a year compared to a maximum savings limit of £12,000 for a Help to Buy ISA (these limits apply to each person, not per couple). Unlike the Help to Buy ISA, the LISA can contain a mixture of cash and stocks and shares. The LISA is also more flexible as the savings can be withdrawn from age 60 onwards, if not used to buy a home before that. If you already have a Help to Buy ISA, then you can transfer the savings to a LISA.

3. Beware of the additional surcharge of land transaction duties which can apply to residential property purchases

An additional 3% (England, Northern Ireland and Wales) or 4% (Scotland) is payable where a second or subsequent home is purchased for £40,000 or more. The additional charge is added to the relevant duty, with rates varying by country. However, if you are replacing your main residence, and sell your old home within 36 months (18 months in Scotland), you can reclaim any extra duty paid. You can get caught by this extra charge if you buy a property following an informal separation from your spouse or civil partner.

Example: The normal stamp duty land tax payable on a residential property purchase for £300,000 in England is £5,000, but this increases to £14,000 where the purchase is a second or subsequent property, such as a buy-to-let.

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4. Let rooms in your own home to one or more lodgers

Rent-a-room relief allows up to £7,500 income per property tax-free from letting rooms as residential accommodation in a home you also occupy. No expenses can be claimed. If the gross rent is higher than £7,500, check whether the normal approach of paying tax on the income after deducting allowable expenses is more tax-efficient.