

Important changes to your Buy to Let tax relief

We've produced this guide to help you understand the Government changes to landlords' tax relief and how they may affect you.

What's changed?

Currently, you pay tax on the amount you receive from rental income, and you're allowed to deduct the cost of mortgage interest and other expenses. However, in 2021, you will only be able to claim 20% tax relief on mortgage interest. To give you time to adjust, the changes will be phased in over four years from April 2017.



Mortgage interest tax changes will be phased in between **2017** and **2021**.

	2016/17	2017/18	2018/19	2019/20	2020/21
Mortgage interest* deduction	100%	75%	50%	25%	
Tax relief allowance on mortgage interest* (at the basic rate of tax)		25%	50%	75%	100%

How the changes will affect you

If you're a residential landlord and remain a **basic rate taxpayer**[^], you will be unaffected.

If you're a residential landlord and a **higher or additional rate taxpayer** you will pay more tax.

What else is changing?

You can currently deduct 10% of rental profits as notional 'wear and tear' for furnished properties. From 2016/2017, you will only be able to claim tax relief on costs you've actually incurred.



440,000 basic-rate taxpayers – or 22% of the UK's **2 million** landlords – may be forced to pay **40%** tax on their income rather than **20%** when the rules are implemented.

Source: National Landlord Association (NLA)



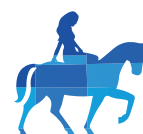
Speak to an independent tax adviser for **more information**.

What to do next

- Speak to an independent tax advisor and/or your financial advisor to make sure you understand the changes and the effect they will have on you
- Contact your local tax office, or visit **www.gov.uk** for more information.

*and other finance costs (including arrangement or broker fees).

[^]Overall the amount of tax you pay depends on all of your sources of income, including rental profits, employment, pensions, etc.



Here's an example of how it will work

Higher Rate Tax Payer	Today (2016/17)	2018/19	2020/21
	(40% tax relief)	(50% @ 40% tax relief; 50% @ 20% tax relief)	(20% tax relief)
Rental income	£11,000	£11,000	£11,000
Mortgage Interest	£6,000	£6,000	£6,000
Rental costs	£2,000	£2,000	£2,000
Profit before tax	£3,000	£3,000	£3,000
40% tax on rent	£4,400	£4,400	£4,400
Tax relief on mortgage interest and rental costs	£3,200	£2,600	£2,000
Total tax	£1,200	£1,800	£2,400
Profit after tax	£1,800	£1,200	£600

Standard Rate Tax Payer	Today (2016/17)	2018/19	2020/21
	(20% tax relief)	(20% tax relief)	(20% tax relief)
Rental income	£11,000	£11,000	£11,000
Mortgage Interest	£6,000	£6,000	£6,000
Rental costs	£2,000	£2,000	£2,000
Profit before tax	£3,000	£3,000	£3,000
20% tax on rent	£2,200	£2,200	£2,200
Tax relief on mortgage interest and rental costs	£1,600	£1,600	£1,600
Total tax	£600	£600	£600
Profit after tax	£2,400	£2,400	£2,400

This information should not be taken as tax advice, for more details on how this will affect your circumstances you should consult with an independent tax adviser and/or your financial adviser.

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Information correct at time of going to print (January 2017).