What is changing?

Until 5 April 2017 any interest paid on a buy to let mortgage can be claimed as an allowable expense for the purposes of tax.

By 5 April 2020 this interest cost will not be an allowable expense; instead you will be able to claim basic rate tax relief on finance expenses.

In the intervening period it will be progressively withdrawn.

This means you will pay tax on the value of that interest cost, if you are a higher rate taxpayer. Be warned, as the taxman considers your property profits will have increased as a result of this change, you could be a higher rate payer in the future, when you aren't now!

What does that mean to me?

To know this exactly you need to know:

- how much mortgage interest you pay – if you are on an interest only mortgage this will be your mortgage payments. If you are a repayment mortgage your lender will provide a certificate showing how much interest you pay a year.
- Your tax rate – your accountant should be able to tell you this

As a simple illustration:

	2016/17	2020/21
Rental profit	£11,000	£11,000
Mortgage Interest expense	£5,000	£0
Taxable profit	£6,000	£11,000
Tax payable at 40%	£2,400	£4,400
Basic rate relief on interest	£0	(£1,000)
Net Tax payable	£2,400	£3,400

In this case the tax payable will increase by £1,000.

What should I do about this?

There are a number of things to consider:

1. Can you reduce your mortgage significantly to avoid the mortgage interest, and therefore this extra cost? This is worth doing given interest rates will go up at some stage, which is likely to cost even more than this tax change.
2. Are you increasing rent when you can? The rent increases over the next 4 years may cover the full tax increase.
3. Have you reviewed this with your accountant to ensure you are structuring your affairs efficiently?

If you have any queries about this then please contact us, we'll happily refer you to our friendly accountants who are specialists in looking after landlords.

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