BUY TO LET

A guide to changes that will affect your business, From Maxwell Moore Limited

Tax relief on mortgage interest

From 1 April 2017, the way that tax relief on mortgage interest is calculated begins to change. Currently you can deduct your total mortgage interest from your income and tax is due on the profit. By 2020 you will pay tax on your total income and be able to offset 20% tax relief on your mortgage interest. The change will be phased in over four years. Where all taxable income falls within the basic rate band, there should be no net change in the tax due. However, if you pay tax at the higher rates of 40% or 45% then your tax bill will go up. See table 1 below for an example. The change in calculation method means some basic rate tax payers may find they are pushed into the higher rate tax band. Tax relief for limited companies remains unchanged; they can still claim all mortgage interest as a business expense. Talk to your tax advisor about the pros and cons of owning property through a limited company.

Table 1: Effect of change in calculation of tax relief on mortgage interest

Total income (rent)	A	£10,000				
Mortgage interest (MI)	B	£3,600				
Other expenses	C	£2,000				
	Tax year	2016/17	2017/18	2018/19	2019/20	2020/21
% MI allowable as expense	D	100%	75%	50%	25%	0%
MI allowable as expense	E=BxD	£3,600	£2,700	£1,800	£900	£0
Profit for tax purposes	F=A-C-E	£4,400	£5,300	£6,200	£7,100	£8,000
40% tax on profit	G=Fx40%	£1,760	£2,120	£2,480	£2,840	£3,200
MI restricted to 20% relief	H=B-E	£0	£900	£1,800	£2,700	£3,600
20% tax relief on MI	J=Hx20%	£0	£180	£360	£540	£720
Tax due	K=G-J	£1,760	£1,940	£2,120	£2,300	£2,480
Net income	L=A-B-C-K	£2,640	£2,460	£2,280	£2,100	£1,920

Disclaimer

The information provided is accurate to the best of our knowledge. Maxwell Moore does not provide tax advice and we recommend you consult a qualified tax advisor to discuss how these changes impact your personal circumstances.

Mortgage underwriting

On 1 January 2017, the first stage of regulatory changes to underwriting BTL mortgages came into effect. Now, lenders must carry out enhanced affordability checks: this means using stressed rates to calculate mortgage payments and increased income coverage ratio (ICR) requirements. For products less than five years or with variable rates, affordability must be calculated using a stressed rate of at least 5.5%. For five year fixed rates, the lender can determine the stress rate, though many are using a rate of at least 4%. Using a stressed rate increases the monthly mortgage payment used to determine the ICR. To account for the forthcoming tax changes, lenders have increased ICR requirements. For a basic rate tax payer, typical ICRs are now 135% or more, and for a higher rate tax payer the ICR used is at least 145%. These changes already make qualifying for a personal BTL mortgage more difficult.

Further changes are due from 1 October 2017: any landlord who has four or more mortgaged BTL properties will be classed as a portfolio landlord. Lenders will have to assess the affordability of the entire portfolio, not just the property being mortgaged. New requirements will include landlords having to submit cash flow forecasts and business plans for their entire portfolio. Maxwell Moore has the expertise to help with your mortgage requirements in these tougher times.