

TOPICAL TAX ISSUES

13 March 2019

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KEY TAX CONSIDERATIONS

- Income Tax
- Capital Gains Tax
- Inheritance Tax
- SDLT



INCOME TAX MATTERS

- Fundamental principles
- Furnished or unfurnished
- Wear and tear allowance
- Typical expenses
- Loan interest relief
- FHL

CAPITAL GAINS TAX

- Tax on sale
- Annual exemption
- Varying rates
- FHL and Entrepreneurs' Relief
- Ownership
- Main residence relief



INHERITANCE TAX

- Valuation
- Tax can be paid by instalments



PROPERTY TAX CHANGES

- Abolition of wear and tear allowance
- Finance cost restrictions
- Capital Gains Tax rates
- Higher SDLT rates
- Planning opportunities

WEAR AND TEAR ALLOWANCE



- Abolished April 2016
- Replacement furniture relief
- Initial furnishings
- FHL retain capital allowances

FINANCING COSTS

- Residential property
- April 2017
- 100% deduction phased out
- 20% tax reducer
- Basic rate tax payers
- Child benefit and personal allowance impact
- FHL and overseas properties

PROPERTY INCOME & INTEREST

Relief example

Property Income and Interest Relief example				
Details				
Rental Income	£50,000			
General expenses	£10,000			
Finance interest	£20,000			
Assuming the individual is a higher rate tax payer				
Tax Year		2018-19		2020-21
Gross rental income		£50,000		£50,000
General expenses		-£10,000		-£10,000
Allowable interest		-£10,000		£0
Rental profit		£30,000		£40,000

PROPERTY INCOME & INTEREST

Relief example cont.

		2018-19		2020-21	
Rental profit		£30,000		£40,000	
Tax at 40%		£12,000		£16,000	
Less: Tax reducer/credit					
10,000*20%		-£2,000			
20,000*20%		-		-£4,000	
Tax liability on rental income		£10,000		£12,000	

CAPITAL GAINS TAX RATES

- Reduction to 10% and 20%
- NOT for transactions including residential property
- Mixed use property – need to apportion
- Payment on account within 30 days from April 2020

STAMP DUTY LAND TAX (SDLT)

- 3% surcharge effective for transaction completion from 1st April 2016
- The higher rate applies if there is a joint owner who owns another property
- FHL included
- Commercial and mixed use properties unaffected

SDLT (CONT.)

Higher rates of SDLT are not intended to impact:

- If you are moving from one main residence to another, and
- You are disposing of a main residence
- 3 year window allowed – can reclaim 3% SDLT if sell old home within 3 years of purchase of new home

From 26 November 2018 –

- Property disposed of must have been disposed of in previous 3 years; and
- Property must have been the taxpayer's main residence at some time during that period.

SDLT (CONT.)

3% Surcharge on buy to let residential properties (and second homes)

	Main residence	Second home or buy to let
Up to £40,000	Zero	Zero*
Up to £125,000	Zero	3%
The next £125,000 (the portion from £125,001 to £250,000)	2%	5%
The next £675,000 (the portion from £250,001 to £925,000)	5%	8%
The next £575,000 (the portion from £925,001 to £1.5 million)	10%	13%
The remaining amount (the portion above £1.5 million)	12%	15%

* providing the purchase price is no more than £40,000

SDLT EXAMPLES

- Residential property purchase for £250k
 - First purchase, SDLT £2,500
 - Additional property, SDLT £10,000
- Residential property purchase of £125k
 - First purchase, SDLT £Nil
 - Additional property, SDLT £3,750



SDLT (CONT.)

- First purchase by a company
- Large scale investments
- Annexes
- Multiple dwellings relief
- Non-residential rates of SDLT

SDLT AND NON RESIDENTIAL PROPERTY

From 17 March 2016, SDLT on non residential and mixed use property is charged on a proportionate banding basis, in line with the new basis for residential property:

Transaction Value	New rates
Up to £150,000	Zero
The next £100,000 (the portion from £150,001 to £250,000)	2%
Over £250,000	5%

ACTION POINTS

- Restructure borrowing
- Property acquisition structuring – think about SDLT
- Brexit?
- Take advice!



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