



Guide to

Buy to Let

Income and Taxation

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Your home may be repossessed, if you do not keep up repayments on your mortgage.
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Beginners Guide to Buy to Let Taxation

If you are considering purchasing a residential buy to let property, you may not be fully aware of the tax implications. Usually there will be two taxes that you may have to pay. These are, income tax, which is payable each year based on your income from the property after deducting certain expenses that you have incurred, and capital gains tax, which is payable when you sell the property and is based on the sale proceeds of the property less the cost of the property.



“It is important to keep accurate records of both your income and the expenses incurred on running your Buy to Let property”

Rental income and tax

Tax is payable on the profits made from letting a BTL property. It's normally calculated on the gross annual rental income less any allowable expenses incurred as a result of renting out the property, as well any other allowances that you are entitled to.

Losses incurred in any year may possibly be carried forward to set against profits made in future years.

You will have to declare this income on your tax return so you should keep a record of rental payments received and any associated expenditure for the rental property. An accountant will be able to ensure that HMRC are properly advised and all allowable expenses and allowances are correctly identified.

Deductions

These are examples of some expenses that may be deducted. It's not a comprehensive list and it is offered as a guide only:

Allowable

- Utility bills
- Buildings and Contents insurance
- Mortgage interest payments
- Property maintenance and repair
- Letting agent and accountant fees
- Costs of services including cleaners, plumbers, electricians and gardeners
- Other directly-attributable costs such as phone calls and advertising for tenants

Disallowable

- Renovation work and improvements made to the property, e.g. replacing an item with a one of a higher specification, installing central heating, carrying out any work which was accounted for by a reduced purchased price for the property,
- Capital repaid on any loan taken out to buy the property,
- Costs incurred whilst the property is not available for letting,
- Costs of purchasing/selling the property.



“Using an accountant who understands property tax is important so that you can make the most of all the allowances that are available to you”

Capital Gains Tax

The gain that is subject to tax is the proceeds that you receive from the sale less the price that you paid for the property. These costs will include your costs of purchasing and selling the property, such as legal expenses, estate agents fees and stamp duty. If you have carried out any improvements to the property, including renovation work and these costs have not qualified for relief under the income tax rules then you may be able to get relief for these expenses now. The amount of tax that you will eventually pay will depend upon the length of time that you have owned the property and whether you have lived in the property at any time during your ownership.

Non-UK Resident Landlords

There are special taxation provisions concerning landlords that own properties in the UK but spend at least 6 months of the year abroad. Although they may not normally pay tax in the UK, they have to pay basic rate tax on the net rental income of UK property. However personal allowances may be available which cover the net rental income and entail that no tax is payable.

Formation of a Company

As a consequence of lower tax rates and a different CGT regime, it can sometimes be beneficial to form a limited company to acquire property. If this option is to be seriously considered you should take professional advice.

Advice

This guide should be used for basic information only and should you need more in depth advice you should contact your accountant or tax advisor.

Should you need to talk to an accountant or not have an accountant then please contact us and we will be able to introduce you to an accountant in your area.

Contact Details



For advice on Buy to Let and all other types of mortgages contact Mortgage Concepts Associates or visit our website at www.mortgageconcepts.co.uk

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