

TAX IMPLICATIONS FOR UK RESIDENTIAL PROPERTY

Personal vs. Company Ownership

Issue	Holding property personally	Holding property in a company
Tax on rental income	<ul style="list-style-type: none"> Individually taxed on 100% profit in year arising 20%/40%/45% income tax National Insurance may be payable if amounts to a trade (Class 2 and 4) 	<ul style="list-style-type: none"> 19% Corporation Tax payable on profits in year arising* Company owners only taxed on extraction of profits Tax on dividend extraction at 7.5%/32.5%/38.1%
Mortgage interest relief	<p>Prior to April 2017 – 100% deduction for interest against rental income reducing taxable profits.</p> <p>Between April 2017-2020 new rules phased in. Eventually maximum tax relief restricted to 20%.</p> <p>Interest will be restricted and offset as a tax reducer (i.e. offset against tax payable not taxable income)</p> <ul style="list-style-type: none"> In 2017 to 2018 the deduction from property income (as is currently allowed) will be restricted to 75% of finance costs, with the remaining 25% being available as a basic rate tax reducer In 2018 to 2019, 50% finance costs deduction and 50% given as a basic rate tax reducer In 2019 to 2020, 25% finance costs deduction and 75% given as a basic rate tax reducer From 2020 to 2021 all financing costs incurred by a landlord will be given as a basic rate tax reducer. 	Currently 100% tax deduction available against income no restriction.

*Reducing to 17% from 1st April 2020.

ATED	N/A	ATED rules apply. Charge applies unless a relief is available. This applies to properties with a market value of £500,000 at 01/04/2017 or acquisition if later. (Note: Prior to 01/04/17 value was based on market value at 01/04/12 or acquisition if later)
Stamp duty land tax (SDLT) on acquisition	<p>Banded based on the purchase value currently ranging from 0% to 12%.</p> <p>From 1 April 2016 new rules introduced and an additional 3% SDLT payable on all bands (including nil band) if acquire second residential property (subject to exemptions).</p>	<p>Properties acquired for <£500k SDLT bands as for individuals.</p> <p>Properties >£500k SDLT fixed at 15% on WHOLE value. Relief available for developers, investors (rental business) and property traders.</p> <p>New rules from 1 April 2016 also apply to companies and 3% additional SDLT payable on some acquisitions of residential property.</p>
Capital gains tax (CGT) on sale	<p>Annual CGT allowance available</p> <p>CGT payable at 18%/28% (higher rate taxpayers)</p>	<p>No annual CGT allowance but cost indexed for inflation</p> <p>19% Corporation Tax on gain on property*</p>
Inheritance tax	Included in inheritance tax estate (irrespective of individuals' tax status in the UK)	From 01/04/17 IHT position is broadly as if held personally. (complex seek advice)

*Reducing to 17% from 1st April 2020.

If you require any further information on any of the issues raised above, please email Lucy Mangan at lmangan@menzies.co.uk