

TAX ON BUY TO LET PROPERTY PORTFOLIOS IS CHANGING

April this year will see a major change in the taxation of buy to let properties, in particular those owned by individual landlords.



CHRIS TYMANOWSKI

Two major changes will be:

1. A 3% levy on existing SDLT rates.
2. Tax relief on mortgage interest being scrapped.

This will see any profit wiped out on many new transactions which would not proceed and exiting investments may start running at a loss.

What does this mean in the short, medium and long term?

Short Term - At present there is rush to get transactions completed by the end of March.

There has also been a recent influx of rental properties for sale on the market. There has also been a substantive increase of buy to let mortgage applications by companies.

Why? The tax relief on mortgage interest being scrapped will not apply to companies.

Medium Term – Investors are setting up limited companies to purchase buy to let properties in.

As well as the mortgage interest relief for companies there are several other well established principles for tax efficient distribution of profits by a company to shareholders.

Medium Term – The 3% levy will not apply to companies who have 15 or more properties. This provision is likely to be phased out over time.

Medium Term – Individual property owners will incorporate to a limited company. Under recent case law and existing legislation this can be done with £0 CGT triggered and £0 SDLT paid.

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Peter Lynn & Partners

Head Office, 2nd Floor, Langdon House
Langdon Road, Swansea, SA1 8QY

Tel: 01792 450010

Email: info@peterlynnandpartners.co.uk

Web: www.peterlynnandpartners.co.uk

Peter Lynn
& PARTNERS

Solicitors

This process will need to be managed between accountants, lawyers, lenders and if necessary, tax advisors.

If done correctly, hundreds of thousands of £ can be saved with effective tax planning and we are seeing an influx of investors looking to incorporate their portfolios.

Long Term – The SDLT relief for partnerships which has been around since 2003 may well be scrapped, leaving on CGT relief which is subject to strict criterion as set out in case law.

“The tax benefits of incorporating may greatly diminish. We expect to see many incorporations over the coming years in anticipation of the 2003 legislation being scrapped in the future”

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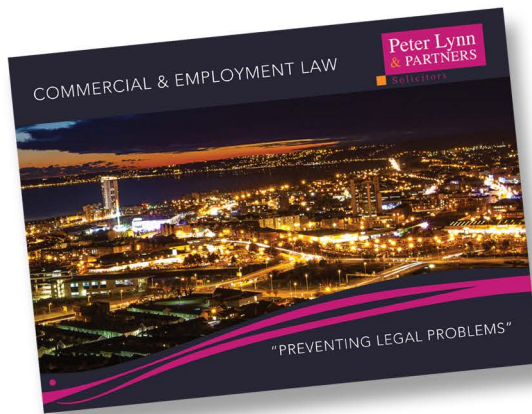
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