A buy-to-let opportunity?

Cuts to stamp duty land tax (SDLT) and its Scottish equivalent have reduced the purchase costs of buy-to-let property. But property investors should also evaluate other factors.

In his Summer Statement, the Chancellor increased the nil rate threshold for SDLT in England and Northern Ireland from £125,000 to £500,000 for all purchases until 31 March 2021. At most that means a saving of £15,000 in SDLT on a property purchase.

The Scottish Government then increased its equivalent nil rate threshold from £145,000 to £250,000. Both governments kept their surcharges on the full purchase price for buy-to-let (BTL) properties and second homes (3% in England and Northern Ireland and 4% in Scotland). Wales took a different stance and excluded BTL and second home buyers from the n ew Welsh £250,000 nil rate threshold (up from £180,000).

The higher thresholds prompted press headlines suggesting that the BTL market would enjoy a recovery (outside of Wales). While the tax saving can be significant, particularly in London and south east England, investors should consider the other tax changes from past years before making a BTL purchase:

- If you are borrowing money to make the purchase, then you can no longer offset the interest you pay against the rent you receive for income tax relief at your highest marginal rate. Instead you will be given a tax credit equal to the basic rate of income tax on the interest charged. This could mean that all the rent is included in your income tax calculations, minus non-interest expenses, resulting in more income tax or even tipping over one of the tax system's income thresholds.
- Capital gains tax (CGT) is levied at a higher rate on disposals of non-exempt residential property than on other assets. Higher and additional rate taxpayers face a 28% tax charge once they have used up their CGT annual exempt amount.
- Any CGT due on residential property is now payable within 30 days of the completion of the sale, along with an appropriate interim tax return.
- The days of a 10% 'wear and tear' allowance for furnished properties are long gone: relief is now only given for actual expenditure.

More changes could be coming in England on the non-tax front. Last year the government consulted on "resetting the balance of rights and responsibilities between landlords and tenants". The consultation's proposals included the potential abolition of assured shorthold tenancies and an end to 'no-fault evictions.' Both measures could reduce the value of BTL property in England by making it less readily saleable.

The tax holiday may already be driving up prices. Nationwide reported a 1.7% monthly increase in July 2020 after taking into account seasonal factors, more than reversing the 1.6% fall in June. If you are considering investing in BTL property in the current market, however, take advice on alternative investment options first. As ever, you shouldn't let the tax tail wag the investment dog.

The value of your investments and the income from them can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance.

The levels and bases of taxation and tax reliefs are subject to change and their value depends on individual circumstances. Tax laws can change. The Financial Conduct Authority does not regulate tax advice or buy-to-let properties.