Buy to Let Factsheet

Owning and renting property has an impact on your tax position. Whilst we can help you find the right mortgage for your Buy to Let properties you should seek independent tax advice. Each landlord will have different circumstances. Rental income, mortgage repayments, non-property related earnings, and any benefits you receive as well as whether property is held solely, jointly or in a company structure all impact your tax position.

Do you pay tax on Buy to Let property income?

You must pay tax on any profit you make from renting out property. How much you pay depends on:

— how much profit you make

— your personal circumstances

Your profit is the amount left once you've added together your rental income and taken away the expenses or allowances that you can claim. You must contact HMRC if you have taxable profits from your property you rent.

Tax relief on mortgage interest costs

Landlords used to be able to offset mortgage interest payments against rental income, but in 2015 the government announced they're phasing this out.

Since April 2020, you can't deduct any of your mortgage expenses from rental income to reduce your tax bill. Instead, you'll receive a tax-credit, based on 20% of your mortgage interest payments.

This means that a landlord getting £10,000 in rent and paying £5,000 in mortgage interest payments will end up paying tax on the full £10,000 – though the amount will still depend on their tax bracket. They will then be able to deduct £1,000 from their tax bill due to the 20% tax credit, leaving them with the final overall tax bill on their rental income. Here's an example for a higher rate tax payer in England & Wales*:

Tax year 2022/2023	
Mortgage interest can't be deducted before calculating taxable profit	
Rental Income	£10,000
Deduct other allowable expenses*	£2,000
Taxable Income	£8,000
Tax @ 40%	£3,200
Mortgage Interest Relief (20%)	£1,000
Buy to Let Tax Bill	£2,200

** See www.gov.uk for more information on allowable expenses and Scottish income tax rates.*

Do you pay Stamp Duty Land Tax on a Buy to Let property?

Yes, the amount varies depending on the purchase price of the property and where in the UK it is. In England and Northern Ireland you'll pay Stamp Duty Land Tax, in Scotland you'll pay Land and Buildings Transaction Tax and in Wales you'll pay Land Transaction Tax. Anyone buying a second property that isn't selling their main residence will be charged. This will include holiday lets and buying a property for children if the parents have their name on the title deeds. The amount of tax paid is deductible from any capital gains you might make on sale of property. The current rates are:

England & Northern Ireland	Scotland	Wales
3% up to £125,000	4% up to £145,000	4% up to £180,000
5% on the portion from £125,001 to £250,000	6% on the portion from £145,001 to £250,000	7.5% on the portion from £180,001 to £250,000
8% on the portion from £250,001 to £925,000	9% on the portion from £250,001 to £325,00	9% on the portion from £250,001 to £400,000
13% on the portion from £925,001 to £1,500,000	14% on the portion from £325,001 to £750,000	11.5% on the portion from £400,001 to £750,000
15% on the portion from £1,500,001 and above	16% on the portion from £750,001 and above	14% on the portion from £750,001 to £1,500,000
		16% on the portion from £1,500,001 and above

Do you pay Capital Gains Tax on Buy to Let property?

Yes, if you sell the property for more than you paid for it after deducting costs such as stamp duty, estate agent and solicitor fees. By making a profit, you are essentially 'gaining capital', and so the tax applies. However, as an individual you get an annual allowance to offset this.

Do you pay Inheritance Tax on a Buy to Let property?

Yes, Inheritance Tax is payable on Buy to Let properties but the amount changes depending on your circumstances. A Buy to Let property that you own will form part of your estate for Inheritance Tax purposes.

This information does not constitute tax advice. For more details on how this will affect your circumstance you should consult with an independent tax adviser.

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