



Tax relief on property finance costs

We'd like you to check the property pages of your Self Assessment tax return for the year ended 5 April 2020. This is because you may have claimed too much tax relief for your property finance costs when working out your taxable profits for that year.

Finance costs for a property that you let can include

- the costs of getting a loan or alternative finance
- any interest on a loan or alternative finance payments

If you're a landlord, the way that you claim tax relief for residential property finance costs has been changing. Before April 2017, you could take off 100% of these costs from your property income when working out your taxable profits for the year. This meant that if you paid Income Tax at the higher or additional rate, you would be getting tax relief for your costs at that rate.

Now, 100% of your residential property finance costs are taken off your overall tax bill, instead of your property income. And the tax relief you get for those costs is restricted to the basic rate of Income Tax.

The table below shows how this changed.

| Tax year | Percentage of residential finance costs landlords can take off from property income | Percentage of residential finance costs landlords can take off from their overall tax bill at basic rate |
|------------------------------|---|--|
| 6 April 2017 to 5 April 2018 | 75% | 25% |
| 6 April 2018 to 5 April 2019 | 50% | 50% |
| 6 April 2019 to 5 April 2020 | 25% | 75% |
| 6 April 2020 to 5 April 2021 | 0% | 100% |

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On the property pages of your tax return for the tax year ended 5 April 2020, you should have entered:

- in box 26 – 25% of your residential property finance costs, and all non-residential property finance costs
- in box 44 – the remaining 75% of your residential property finance costs

We've compared these 2 amounts from your tax return. We think you may have entered more than 25% of your residential property finance costs in box 26.

This change does not affect finance costs for non-residential properties. 100% of these costs can still be taken off your property income. However, if you have finance costs for property that is not all residential (for example, a flat above a shop) you must find out how much can be taken off your property income and how much cannot. For guidance and examples of this, go to www.gov.uk and search 'PIM2056'.

For a reminder of what the property pages look like and for more guidance on how to complete them, go to www.gov.uk and search 'SA105'.

What you need to do now

- 1 Check the property pages of your Self Assessment tax return for the year ended 5 April 2020.
- 2 If you believe all the information on your tax return is correct, you do not need to do anything. However, if there's an error on your tax return, please amend it by 31 January 2022.

To do this, go to www.gov.uk/self-assessment-tax-returns/corrections.

- 3 If you've also made an error for the years ending 5 April 2019 and/or 5 April 2018, you'll need to use our Digital Disclosure Service (DDS) to bring your tax affairs up to date. You have 30 days from the date of this letter to tell us that you intend to make a disclosure. Once we've acknowledged this, you'll then have 90 days to make your disclosure. When you make your disclosure, please include the media reference 'CI317'.

To make your disclosure, go to www.gov.uk and search 'How to make a voluntary disclosure to HMRC'. If you do not have access to digital services, you can call us on 03000 575 379.

What happens next

Changes to your tax return may mean that you need to pay more tax. Or we could owe money back to you.

If you have not paid enough tax, we may charge you a penalty.

For more information about this, go to www.gov.uk/self-assessment-tax-returns/corrections.

Help and support

If you have any queries about this letter, please call us on 03000 575 379.

If you cannot complete the above 3 steps because of a disability, mental health condition, or you do not speak English/Welsh, we can offer you extra support. To find out more about this, go to www.gov.uk/dealing-hmrc-additional-needs.

More information

For more information about:

- interest on property loans and other financial costs, go to www.gov.uk and search 'Tax relief for residential landlords: how it's worked out'; and/or

- expenses that you can and cannot claim when letting your property, go to www.gov.uk and search 'Income Tax when you let property: work out your rental income'.

We've sent a copy of this letter to your accountant or tax adviser.