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Tax changes for UK landlords

Thailand-based landlords of British property have been urged to be calm in the wake of recent tax changes in the country when, in his most recent Budget Announcement, British Finance Minister George Osborne cut landlords' tax relief for those paying higher rates of income tax.

Currently, landlords can offset the interest on their mortgage repayments against the income they incur on the rent payments. Landlords, can deduct their costs including mortgage interest payments from their profits before paying tax.

Higher rate tax payers receive relief at 40 percent or 45 percent however, from April 2017, this tax relief will be slowly phased out, restricting it by 2020 to 20 percent for all landlords regardless of earnings.

While the changes have caused a lot of concern for landlords, Benham & Reeves Residential Lettings is urging landlords not to panic as the tax changes will have minimal consequences for many investors.

The company has 13 offices across London as well as international offices in Dubai, Hong Kong, India, Malaysia and Singapore,

The tax changes are intended to cool the buy-to-let market which the Bank of England warned was in danger of overheating. Buy-to-let mortgages now account for 15 percent of all new mortgages in the U.K., and there is growing concern that Britain's appetite for buy-to-let is hampering first time buyers' efforts to get on the property ladder.

Vidhur Mehra, Finance Director of Benham & Reeves Residential Lettings, said: "While there have been some worrying headlines in the wake of these announcements, the consequences will not be as far reaching as many fear.

"For overseas landlords who have a long history of investing in London, their U.K. earnings are at the basic rate of income tax, so the recent announcements will have little impact on them.

"Even for U.K. -based investors, it means they will only have a slightly higher tax bill as they will still be able to claim 20 percent rather than the existing 40 percent or 45 percent."

Mehra added that many clients are professional landlords, and most will simply use the rent to service the mortgage and see their profit as the capital appreciation of the property.

"With rents increasing in London as housing supply constricts, property values are predicted to increase further over the medium to long term which should cushion many landlords.

"We've certainly not had any indication that our landlords wish to exit the rental market because of the planned tax changes."

By definition, the investment would only be subject to tax of any kind if it was a profitable one. Some landlords may not be able to claim as much tax back on the profits, but the tax changes are not likely to send most investors into the red.

The U.K.'s tax laws and a rising property market will ensure the buy-to-let market continues to thrive and these changes are intended to ensure that property values continue to climb steadily rather than be subject to boom and bust cycles, according to the agency.