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Summer Budget: Buy-to-let relief to be curbed

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Chancellor George Osborne has introduced changes in the way that buy-to-let landlords benefit from receiving tax relief on mortgage interest payments. From 2017, mortgage interest relief will be restricted to the standard rate of tax. So any landlord paying higher-rate tax will be affected. To ease the pain, the reduction will be phased in over a four-year period.

However, some lenders don't like lending to limited companies for buy-to-let investments, or may charge higher rates for what would be commercial debt. According to Russell Quirk, founder and chief executive of online estate agent eMoov.co.uk: "Landlords are going to be up to 20 per cent worse off as previously-enjoyed tax relief rates of up to 45 per cent soon disappear. Based on the average rent they could be up to £2,000 worse off each year. I can only see the result being an increase in rental prices which in turn further hampers those trying to save to get on the property ladder."

But there is some consolation. As Marc von Grundherr lettings director of Benham & Reeves Residential Lettings points out, the restrictions on interest rate relief will only apply to a landlord's rental income, and not his total income.

In addition, the 'wear and tear allowance' which allows landlords to reduce the tax they pay (regardless of whether they replace furnishings in their properties) will be replaced by a new system that only allows them to claim tax relief when they actually do replace furnishings. For long-term investors this could encourage landlords to operate through a limited company status, where all interest will be allowable against tax, with the added attraction that corporation tax is to be reduced to 18 per cent from 2020.