

# What's changing for landlords?

**The Government and Treasury announced various changes to the buy to let (BTL) market in 2015 and 2016 that will start to directly impact landlords from 1st January 2017. Your clients may seek your advice because of these changes so we have outlined a few below.**

## Tax

From April 2017 the tax relief that landlords currently get for finance costs is being gradually reduced to the basic rate of income tax, which means when fully implemented in 2021, landlords will no longer be able to deduct mortgage interest payments as a business cost.

Tax Year <sup>1</sup>	% of finance costs deductible from rental income	% of basic rate tax reduction
2017 to 2018	75%	25%
2018 to 2019	50%	50%
2019 to 2020	25%	75%
2020 to 2021	0%	100%

As a result, some landlords with BTL borrowing are likely to experience a reduction in profitability, with more than 400,000 landlords (22%) who currently pay basic rate tax expected to be forced into a higher tax bracket.<sup>2</sup>

In response you're likely to see landlords trying to regain the returns being eroded by these tax changes by re-evaluating their investment portfolios, including; portfolio size and composition, location, rental income and property

related costs. Landlords are also likely to be considering their options for re-financing in order to benefit from low mortgage interest rates, and thus reducing their outgoings.

It is likely that we will see a cooling of the BTL purchase market, with research suggesting that the proportion of landlords looking to expand their portfolios has fallen to an all-time low of 16%.<sup>3</sup>

In order to ensure that lenders take into account these changes, from the 1st January 2017 the Prudential Regulation Authority (PRA) required lenders to consider a landlords tax liability when assessing borrowers affordability. As a result, you will have already seen lenders change their Interest Coverage Ratio (ICR) and stress rate requirements, meaning landlords with lower rental yields may find it more challenging to refinance or purchase new BTL property. In addition to the changes on affordability, from 30th September the PRA also expects lenders to adopt specialist underwriting approaches for landlords with four or more mortgaged BTL properties, defined as portfolio landlords, you can therefore expect to see lenders make more changes in the next few months.



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<sup>1</sup> <https://www.gov.uk/government/news/changes-to-tax-relief-for-residential-landlords>

<sup>2</sup> <http://www.landlords.org.uk/news-campaigns/news/440000-landlords-forced-tax-bracket-april-2017>

<sup>3</sup> BDRC Landlords Panel Q4 2016

## The Government's move to ban letting fees

Letting agents in England could be banned from charging fees to tenants under plans announced in the Autumn Statement in an attempt to make letting more affordable for tenants. Letting fees could add as much as £500 to the cost of renting a home. Abuse of this in the past has seen some letting agents charging both the landlord and the prospective tenant for the same checks<sup>4</sup>.

As a result it is claimed that letting agents will have no other option than to pass the fees onto landlords which could mean an increase in rents<sup>4</sup>. With just over half (55%) of landlords using a letting agent this could see rents rise across the country<sup>3</sup>. However, in Scotland where letting fees are already banned, rents have not seen an increase as a direct result<sup>4</sup>. The alternative to increasing rents could be for landlords to become more hands on, managing the property themselves and not use a letting agent; however for those with numerous properties or other commitments this might not be feasible.

## Government expansion of mandatory HMO licensing scheme

The Government have announced their intention to expand the mandatory licensing scheme, with changes due to come into force this year, subject to parliamentary approval. Under the terms of the order any landlord that fails to obtain a license will be liable to pay a potentially unlimited fine. The cost of an HMO license varies depending on location but could be as much as £910<sup>5</sup> for a new application and £830 for a renewal, another additional cost for landlords who didn't previously need one.

### The HMO proposals include:

- Remove the story rule so all houses with five or more people from two or more households are in scope
- Extend mandatory licensing to flats above and below business premises
- Set a minimum room size of 6.52sqm in line with the existing overcrowding standard (Housing Act 1985)

### Other intended measures are:

- Requiring landlords of shared homes to provide decent storage and refuse disposal facilities
- Landlords may also be subject to the new fit and proper person test (The Housing and Planning Act 2016)

**For more information contact your local BDM,  
their details can be found [here](#)**



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<sup>3</sup>BDRC Landlords Panel Q4 2016

<sup>4</sup><http://www.telegraph.co.uk/property/renting/letting-fees-crackdown-autumn-statement-will-mean-renters-landlords/>

<sup>5</sup><http://www.nottinghamcity.gov.uk/environmental-health-and-safer-housing/private-sector-housing/houses-in-multiple-occupation-hmos/licensing-of-houses-in-multiple-occupation/#fees>