Tax treatment of interest paid on property income: example

For the year to 5 April 2018 a landlord who is a higher rate tax payer with income from other sources of £60,000 has the following income and expenses from residential let property.

Rents received		12,000
Finance costs	(5,000)	
Other expenses		(3,000)
Net profit		4,000
Taxable income from other sources	60,000	
Rental income (75% finance costs deducted)		5,250
		65,250
Less personal allowance		(11,200)
		54,050
Tax at 20% on £32,400		6,480
Tax at 40% on £21,650		8,660
		15,140
Less basic rate deduction on 25%		
Of finance costs (£1,250 x 20%)		(250)
Tax payable		14,890

In this case the individual will be paying £250 more than they would have paid if this restriction on the finance costs had not been introduced by the Budget. This is calculated as finance costs x 25% restriction x (reduction in relief from 40% to 20%) that is £5,000 x 25% x 20% = £250.