



Finance (No. 2) Act 2015

2015 CHAPTER 33

PART 4

INCOME TAX, CORPORATION TAX AND CAPITAL GAINS TAX

Income tax

24 Relief for finance costs related to residential property businesses

- (1) ITTOIA 2005 is amended in accordance with subsections (2) to (6).
- (2) After section 272 insert—

“272A Restricting deductions for finance costs related to residential property

- (1) Where a deduction is allowed for costs of a dwelling-related loan in calculating the profits of a property business for the tax year 2017-18, the amount allowed to be deducted in respect of those costs in calculating those profits for income tax purposes is 75% of what would be allowed apart from this section.
- (2) Where a deduction is allowed for costs of a dwelling-related loan in calculating the profits of a property business for the tax year 2018-19, the amount allowed to be deducted in respect of those costs in calculating those profits for income tax purposes is 50% of what would be allowed apart from this section.
- (3) Where a deduction is allowed for costs of a dwelling-related loan in calculating the profits of a property business for the tax year 2019-20, the amount allowed to be deducted in respect of those costs in calculating those profits for income tax purposes is 25% of what would be allowed apart from this section.

Status: This is the original version (as it was originally enacted).

- (4) In calculating the profits of a property business for income tax purposes for the tax year 2020-21 or any subsequent tax year, no deduction is allowed for costs of a dwelling-related loan.
- (5) Subsections (1) to (4) do not apply in relation to calculating the profits of a property business for the purposes of charging a company to income tax on so much of those profits as accrue to it otherwise than in a fiduciary or representative capacity.
- (6) For the meaning of “costs of a dwelling-related loan” see section 272B.

272B Meaning of “costs of a dwelling-related loan”

- (1) Subsections (2) to (5) apply for the purposes of section 272A.
 - (2) “Dwelling-related loan”, in relation to a property business, means so much of an amount borrowed for purposes of the business as is referable (on a just and reasonable apportionment) to so much of the business as is carried on for the purpose of generating income from—
 - (a) land consisting of a dwelling-house or part of a dwelling-house, or
 - (b) an estate, interest or right in or over land within paragraph (a),
 but see subsections (3) and (4).
 - (3) Anything that in the course of a property business is done for creating (by construction or adaptation) a dwelling-house, or part of a dwelling-house, from which income is to be generated is, for the purposes of subsection (2), to be treated as done for the purpose mentioned in that subsection.
 - (4) An amount borrowed for purposes of a property business is not a dwelling-related loan so far as the amount is referable (on a just and reasonable apportionment) to so much of the property business as consists of the commercial letting of furnished holiday accommodation.
 - (5) “Costs”, in relation to a dwelling-related loan, means—
 - (a) interest on the loan,
 - (b) an amount in connection with the loan that, for the person receiving or entitled to the amount, is a return in relation to the loan which is economically equivalent to interest, or
 - (c) incidental costs of obtaining finance by means of the loan.
 - (6) Section 58(2) to (4) (meaning of “incidental costs of obtaining finance”) apply for the purposes of subsection (5)(c).
 - (7) A reference in this section to a “dwelling-house” includes any land occupied or enjoyed with it as its garden or grounds.”
- (3) In section 274(1)(b) (rules which override rules allowing deductions) after “as applied by section 272” insert “, and to section 272A (finance costs)”.
 - (4) In section 274(3) (meaning of “relevant prohibitive rule”) after “as applied by section 272” insert “, and apart also from section 272A”.
 - (5) After section 274 insert—

Status: This is the original version (as it was originally enacted).

“Tax reduction for non-deductible costs of a dwelling-related loan

274A Tax reduction for individuals

- (1) Subsections (2) to (5) apply if—
- (a) an amount (“A”) would be deductible in calculating the profits for income tax purposes of a property business for a tax year but for section 272A, and
 - (b) a particular individual is liable to income tax on N% of those profits, where N is a number—
 - (i) greater than 0, and
 - (ii) less than or equal to 100.

- (2) The individual is entitled to relief under this section for the tax year in respect of an amount (the “relievable amount”) equal to N% of A.

- (3) Subject to subsection (4), the amount of the relief is given by—

$$\mathbf{BR \times L}$$

where BR is the basic rate of income tax for the year, and L is the lower of—

- (a) the total of—
 - (i) the relievable amount, and
 - (ii) any difference available in relation to the individual and the property business for carry-forward to the year under subsection (5), and
 - (b) the profits for income tax purposes of the property business for the year after any deduction under section 118 of ITA 2007 (“the adjusted profits”) or, if less, the share of the adjusted profits on which the individual is liable to income tax.
- (4) If the individual’s gross finance-costs relief for the year (“GFCR”) is greater than the individual’s adjusted total income for the year (“ATI”), the amount of the relief under this section for the year in respect of the relievable amount is—

$$\frac{\mathbf{ATI}}{\mathbf{GFCR}} \times (\mathbf{BR \times L})$$

where BR and L have the same meaning as in subsection (3).

- (5) Where the amount (“AY”) of the relief under this section for the year in respect of the relievable amount is less than—

$$\mathbf{BR \times T}$$

where BR is basic rate of income tax for the year and T is the total found at subsection (3)(a), the difference between—

- (a) T, and
 - (b) AY divided by BR (with BR expressed as a fraction for this purpose), is available in relation to the individual and the property business for carry-forward to the following tax year.
- (6) For the purposes of this section—

Status: This is the original version (as it was originally enacted).

- (a) an individual's adjusted total income for a tax year is the individual's total income for that year less the total of—
 - (i) so much of that total income as is savings income,
 - (ii) so much of that total income as is dividend income, and
 - (iii) any allowances to which the individual is entitled for that year under Chapter 2 of Part 3 of ITA 2007 (individuals: personal and blind person's allowance), and
- (b) an individual's gross finance-costs relief for a tax year is the total relief to which the individual is entitled for the year under this section before any adjustment under subsection (4).

274B Tax reduction for accumulated or discretionary trust income

- (1) Subsections (2) to (4) apply if—
 - (a) an amount ("A") would be deductible in calculating the profits for income tax purposes of a property business for a tax year but for section 272A,
 - (b) the trustees of a particular settlement are liable for income tax on N% of those profits, where N is a number—
 - (i) greater than 0, and
 - (ii) less than or equal to 100, and
 - (c) in relation to those trustees, that N% of those profits is accumulated or discretionary income.

- (2) The trustees of the settlement are entitled to relief under this section for the tax year in respect of an amount ("the relievable amount") equal to N% of A.

- (3) The amount of the relief is given by—

$$\mathbf{BR \times L}$$

where BR is the basic rate of income tax for the year, and L is the lower of—

- (a) the total of—
 - (i) the relievable amount, and
 - (ii) any difference available in relation to the trustees of the settlement and the property business for carry-forward to the year under subsection (4), and
- (b) the profits for income tax purposes of the property business for the year after any deduction under section 118 of ITA 2007 ("the adjusted profits") or, if less, the share of the adjusted profits—
 - (i) on which the trustees of the settlement are liable to income tax, and
 - (ii) which, in relation to the trustees of the settlement, is accumulated or discretionary income.

- (4) Where the amount ("AY") of the relief under this section for the year in respect of the relievable amount is less than—

$$\mathbf{BR \times T}$$

where BR is the basic rate of income tax for the year and T is the total found at subsection (3)(a), the difference between—

- (a) T, and

Status: This is the original version (as it was originally enacted).

- (b) AY divided by BR (with BR expressed as a fraction for this purpose), is available in relation to the trustees of the settlement and the property business for carry-forward to the following tax year.
- (5) In this section “accumulated or discretionary income” has the meaning given by section 480 of ITA 2007.”
- (6) In section 322 (which lists provisions relying on the definition of “commercial letting of furnished holiday accommodation”)—
 - (a) in subsections (2) and (2A), before paragraph (a) insert—
 - “(za) section 272B(4) (exception from restriction on deductibility of finance costs),”
 - (b) in subsection (2), before the “and” at the end of paragraph (g) insert—
 - “(ga) section 399A(9) of ITA 2007 (exception from restriction on deductibility of interest on loans to invest in partnerships),”
 - and”
 - (c) in subsection (2A), before the “and” at the end of paragraph (e) insert—
 - “(ea) section 399A(9) of ITA 2007 (exception from restriction on deductibility of interest on loans to invest in partnerships),”.
- (7) In ITA 2007, after section 399 insert—

“399A Property partnerships: restriction of relief for investment loan interest

- (1) This section applies to interest on a loan within section 398 if—
 - (a) the partnership concerned carries on a property business, and
 - (b) that property business or part of it is carried on for the purpose of generating income from—
 - (i) land consisting of a dwelling-house or part of a dwelling-house, or
 - (ii) an estate, interest or right in or over land within subparagraph (i).
- (2) Subsections (3) to (6) have effect to restrict relief under section 383(1) for so much of the interest as is referable (on a just and reasonable apportionment) to the property business or (as the case may be) the part of it within subsection (1) (b).
- (3) For the tax year 2017-18, the amount of that relief is 75% of what would be given apart from this section.
- (4) For the tax year 2018-19, the amount of that relief is 50% of what would be given apart from this section.
- (5) For the tax year 2019-20, the amount of that relief is 25% of what would be given apart from this section.
- (6) For the tax year 2020-21 and subsequent tax years, that interest is not eligible for relief under this Chapter.
- (7) Section 399(4) is to be applied in relation to the tax year to which subsection (3), (4) or (5) applies before that subsection is applied in relation to that tax year.

Status: This is the original version (as it was originally enacted).

- (8) Anything that in the course of a property business is done for creating (by construction or adaptation) a dwelling-house, or part of a dwelling-house, from which income is to be generated is, for the purposes of subsection (1)(b), to be treated as done for the purpose mentioned in subsection (1)(b).
- (9) A property business, or part of a property business, that consists of the commercial letting of furnished holiday accommodation (as defined by Chapter 6 of Part 3 of ITTOIA 2005) is not within subsection (1)(b).
- (10) A reference in this section to a “dwelling-house” includes any land occupied or enjoyed with it as its garden or grounds.
- (11) In this section “property business” means a UK property business or an overseas property business.

399B Property partnerships: tax reduction for non-deductible loan interest

- (1) Subsections (2) and (3) apply if for a tax year an individual would be given relief for an amount (“the relievable amount”) by section 383(1) but for section 399A.
- (2) The individual is entitled to relief under this section for the tax year in respect of the relievable amount.
- (3) The amount of the relief is given by—

$$\mathbf{BR \times \text{the relievable amount}}$$

where BR is the basic rate of income tax for the year.”

- (8) In section 26(1)(a) of ITA 2007 (tax reductions deductible at Step 6 of the calculation in section 23 of ITA 2007)—
 - (a) after the entry for Chapter 1 of Part 7 of ITA 2007 insert—

“section 399B (relief for non-deductible interest on loan to invest in partnership with residential property business),” and
 - (b) before the entry for section 535 of ITTOIA 2005 insert—

“section 274A of ITTOIA 2005 (property business: relief for non-deductible costs of a dwelling-related loan),”.
- (9) In section 26(2) of ITA 2007 (tax reductions deductible at Step 6 of the calculation in section 23 of ITA 2007 in the case of taxpayer who is not an individual), before the “and” at the end of paragraph (a) insert—
 - “(aa) section 274B of ITTOIA 2005 (trusts with accumulated or discretionary income derived from property business: relief for non-deductible costs of dwelling-related loans),”.