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What landlords should know about clause 24

Clause 24, also known as Section 24, is an amendment to the UK's tax laws that restrict landlords from deducting finance costs from their rental income.

The legislation that was gradually phased in from 2017 to 2020 means that landlords cannot claim tax relief on mortgage interest, admin fees, loans for furnishings or other costs incurred from borrowing funds.

It was introduced to stop the highest-earning landlords from claiming back large amounts of tax relief and to help first-time buyers get on the property ladder.

Landlords now need to pay tax on the full amount of their rental income. Then, they can claim back finance costs up to the basic rate of income tax, which is currently 20%. If you'd like to learn more about how to claim, please view our fact sheet on the finance cost allowance.

Who does it apply to?

Clause 24 only applies to the following:

- Buy-to-let (BTL) properties
- Houses in Multiple Occupation (HMO)
- Partnerships and LLP's
- Individual landlords
- Trustees

The rules do not apply to Furnished Holiday Lettings (including serviced accommodation if they meet the FHL rules), limited companies, commercial properties in mixed-use buildings and property development and trading.

What loans does it apply to?

Clause 24 applies to any loans that are related to an applicable property, including:

- Loans taken out to purchase residential property for the purpose of letting
- Loans taken out to buy an interest in a property letting partnership
- Existing mortgages and loans of a residential landlord

What costs does it apply to?

Section 24 applies to any finance cost related to the property. This includes mortgage interest and any incidental costs and fees related to the loan.

What if I remortgage?

Remortgaging and withdrawing capital has been a common practice for those that own buy-to-let properties.

However, under section 24, the mortgage is limited to the original property value (including Stamp Duty Land Tax and related costs) plus any improvement costs. In other words, you cannot deduct loan interest above the original purchase price.

Example

Let's say your rental income is £15,000 and your mortgage interest is £5,000.

Under clause 24, you'll need to pay tax on the full amount of your rental income - this amounts to £3,000 if you're a basic rate (20%) taxpayer.

You are then able to reclaim 20% of your mortgage interest under the finance cost allowance, which amounts to £1,000.

It's important to note that you can deduct 20% of the lower of:

1. Finance costs not deducted from income, or
2. The profits of the property business, or
3. The adjusted total income.

Therefore, you'll pay a total of £2,000 of tax on your rental income (£3k - £1k).

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