ZAZEN TAX

Section 24 Explained

Why a profitable landlord can owe more tax than the property made, and what to do about it.

Eight chapters. For anyone with a mortgage on a rental.

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Contents

Chapters two and four are the arithmetic. Chapter eight is what you can actually do, which is shorter than anyone would like.

1. What actually changed

Interest stopped being a cost and became a tax credit.

Until 2017 mortgage interest reduced your rental profit like any other expense. A higher rate landlord got 40 pence of relief per pound of interest. It was withdrawn a quarter at a time from 2017, and from 6 April 2020 none of it is deductible.

In its place is a reduction against your income tax bill, worth 20 per cent of the finance costs. For a basic rate landlord that is the same thing. For anyone above it, the relief halved.

> **IT IS NOT ONLY THE MORTGAGE**
>
> Finance costs include interest on a loan to buy furnishings, mortgage arrangement fees, and fees for repaying a loan early. All of them go through the reduction rather than the expenses.

2. How the reduction is worked out

Twenty per cent of the lowest of three amounts, not of the interest.

- Your finance costs for the year, plus anything brought forward.
- Your property business profits, after any losses brought forward.
- Your adjusted total income: income after reliefs, excluding savings and dividends, less the personal allowance.

Take the lowest, multiply by 20 per cent, and deduct it from your tax bill. On the worked landlord in this book the interest is £15,000 and the profits are £20,000, so the interest is lowest and the reduction is £3,000.

> **THIS IS WHERE MOST CALCULATORS ARE WRONG**
>
> A tool that takes 20 per cent of the interest flat overstates the relief for exactly the landlord who needs the answer: the one whose profits are small relative to the borrowing.

3. Who pays, and who does not

It is a tax on higher rate landlords with mortgages.

Landlord	Section 24 costs	Why
Basic rate	Nothing	20 per cent is what the deduction was worth
Higher rate	20 per cent of the interest	Relief halved from 40 to 20
Additional rate	25 per cent of the interest	Relief fell from 45 to 20
A company	Nothing	Not subject to the restriction
No mortgage	Nothing	No finance costs to restrict

> IT CAN PUSH YOU INTO HIGHER RATE BY ITSELF
>
> Because the rent is taxed before the interest comes off, the gross rent counts toward your bands. A landlord who is basic rate on their real income can be pushed into higher rate by rent they never kept.

4. When the tax exceeds the profit

Not a hypothetical. It happens at ordinary levels of borrowing.

Interest	Real profit	Tax on the property
£13,000	£7,000	£4,346
£15,000	£5,000	£3,946
£17,000	£3,000	£3,546
£19,000	£1,000	£3,146

Rent of £24,000, running costs of £4,000, and a salary of £45,000. As the interest rises the real profit falls faster than the tax does, because the tax is charged on the £20,000 either way. Somewhere between £15,000 and £17,000 of interest the two lines cross.

> AT £17,000 THE LANDLORD IS £546 DOWN
>
> They made £3,000 and paid £3,546. The property is profitable and the landlord is not.

5. What carries forward

Nothing is lost. It is deferred, and it may be deferred a long time.

Where your profits or your income cap the reduction, the unrelieved finance costs carry forward to the next year and join that year's pool. £26,000 of interest against £20,000 of profits gives a £4,000 reduction and carries £6,000 forward.

> **KEEP THE RUNNING BALANCE YOURSELF**
>
> Nobody else is tracking it. A landlord who has carried unrelieved interest for several years has a real asset and usually cannot say how big it is.

6. What a rate rise does now

Before 2017 the taxman shared a rate rise with you. Now you take almost all of it.

Rate	Real profit	Left after tax
4.5 per cent	£11,000	£5,854
6.5 per cent	£7,000	£2,654
7.5 per cent	£5,000	£1,054
8.5 per cent	£3,000	minus £546

A £200,000 mortgage, the same rent throughout. At 8.5 per cent this landlord is losing money after tax without a single tenant changing or a single cost rising.

> **STRESS TEST BEFORE YOU FIX, NOT AFTER**
>
> Two points above today's rate, on the whole portfolio. The lender will do exactly this, and they will do it before they tell you the answer.

7. The company route, and its price

Companies are not restricted. Getting an existing property into one is expensive.

	Amount
Personally, tax on the property	£3,946
In a company, corporation tax	£950
The company saves, a year	£2,996
Stamp duty to move a £300,000 property	£20,000
Capital gains tax on a £60,000 gain	£13,364
Years to break even	**About eleven**

> ELEVEN YEARS, AND THE MONEY IS STILL IN THE COMPANY
>
> Dividend tax applies to anything you take out. The company route suits someone building a portfolio out of retained profit, not someone living on the rent.

8. What you can actually do

- Reduce the borrowing, if you have the cash. It is the only lever that works in every case.
- Check whether a transfer of beneficial ownership to a lower earning spouse helps, before the income arises.
- Make a pension contribution, which extends your basic rate band and can pull rent back out of higher rate.
- Time repairs into the year they are worth most, before 5 April rather than after it.
- Keep the carried forward finance costs recorded, so a better year actually relieves them.
- Model the company route properly before doing it, including the years to break even, and take advice on incorporation relief.

Where to go next

The Section 24 Calculator gives you your own version of chapter four. The Mortgage Rate Rise Stress Test is chapter six. The Personal or Company Calculator gives you the break-even in chapter seven.

Every calculator and workbook mentioned in this book is free on zazentax.com, with no email form. They use the same figures and the same rates as the chapters here.

Zazen Tax

Accountants for landlords. If you would rather someone else did this, that is what we are for.

zazentax.com/contact

General information, not advice for your circumstances. Rates are 2026/27 for the UK and change from time to time. Regulatory items are England unless stated.