

## Explanatory Note

### Clause 24: Relief for finance costs related to residential property businesses

#### Summary

1. The amendments to clause 24 clarify that a company is outside the scope of this measure, whether it carries on a property business directly or in partnership. They also provide that trustees will obtain a tax reduction in respect of finance costs that have been restricted in calculating their accumulated or discretionary income.

#### Details of the amendments

2. Amendment 22 amends subsection (5) of new section 272A of the Income Tax (Trading and Other Income) Act (ITTOIA) 2005. The amendment clarifies that subsections (1) to (4) do not apply for calculating the profits of a company on which it is charged to income tax, no matter whether those profits arise from a property business carried on by it directly or in partnership (unless those profits accrue to it in a fiduciary or representative capacity).
3. Amendments 23, 24 and 25 make provision for a trustee, as well as an individual, to receive the basic rate tax reduction, by inserting new section 274B of ITTOIA 2005.
4. New section 274B provides that a trustee is eligible for the basic rate tax reduction where:
  - the trustee is liable to income tax on property profits,
  - there has been a restriction on the deduction for finance costs when calculating those property profits, and,
  - those profits are accumulated or discretionary income of the trustee.
5. Amendment 26 inserts new section 274B into the list of tax reductions available to persons other than individuals in section 26(2) of ITA 2007.

#### Background note

6. Summer Budget 2015 announced that the relief on finance costs that landlords of residential property can get would be restricted to the basic rate of income tax.
7. The amendments to clause 24 will ensure that the new provisions work as intended, both to exclude companies subject to income tax on their property profits and to allow a trustee with accumulated or discretionary income from property to obtain relief for finance costs at the basic rate. Where a trustee receives income to which beneficiaries are entitled, the individual beneficiaries will be eligible for the basic rate tax reduction under section 274A.