

● Relief on loans not in MIRAS

This Help Sheet gives you information to help you fill in boxes 15.2 and 15.3 on page 5 of your Tax Return.

MORTGAGES AND LOANS TO BUY A HOME

You can claim tax relief on interest payments you make on a loan to buy your only or main home (including a caravan or houseboat) in the UK.

In most cases home loans are included in the mortgage interest relief at source (MIRAS) scheme and you get relief by paying a reduced amount of interest to your lender.

Even if your loan was in MIRAS, you may be entitled to claim relief for any benefit taxable on you if you receive a low-interest or interest-free loan from your employer (beneficial loan interest). Ask the Orderline for leaflet *IR145: Low interest loans provided by employers*. Apart from this if your loan is in MIRAS you do not need to do anything. Do not put loan or repayment details on your Tax Return.

Read the notes that follow and, if you can claim relief, fill in box 15.2 on page 5 of your Tax Return.

You can claim relief only if the loan is used to buy your home or to replace a loan used to buy your home (but see page 2 of this Help Sheet for loans made before 6 April 1988). So you cannot claim relief if the loan is used:

- for home improvements, renovations or repairs, or
- to buy a home for someone else, such as a former husband or wife or a dependent relative.

To get relief you must live in your home at the time the interest is paid. But you can also claim relief if you:

- are temporarily absent from your home (for up to 12 months), or
- have to live in accommodation which goes with your own or your spouse's job and you buy a property which you live in occasionally or intend to use as your home in the future, or
- have to move away because of employment, provided you expect to be away for fewer than four years and to live in your home again on your return (see Extra Statutory Concession A27 in leaflet *IR1: Extra Statutory Concessions* available from the Orderline), or
- move into a new home and are unable to sell your old one straightaway. You can claim tax relief on interest payments on the loan to buy your old home for up to 12 months. If you are having difficulty selling your old home, you may be able to extend this 12 month period; ask your Tax Office or tax adviser for advice. In addition, you will be entitled to tax relief on a loan to buy your new home in the normal way.

If the loan was used for more than one purpose, you can claim relief only on the part of the loan used to buy your home.

Amount you can claim relief for

You can claim relief on loans up to £30,000. If your loan is more than £30,000, you can still have relief but only on the first £30,000 of the loan.

You calculate this figure as follows:

$$\text{Interest} \times \frac{\pounds 30,000}{\text{amount of loan}} = \text{interest on which you can claim relief}$$

Where there is more than one loan, relief is given for the earlier loans first.

Example

Loan 1	£10,000
Loan 2	£15,000
Loan 3	<u>£10,000</u>
Total	£35,000

Loans 1 and 2 are below £30,000 and you can claim full relief on them but you can claim relief only on £5,000 of loan 3 (£30,000 minus £10,000, minus £15,000 = £5,000).

Borrowers who share their homes

The £30,000 limit applies to the home and so the borrowers who share their home share the limit equally between them.

For loans made before 1 August 1988 the £30,000 limit applies to each unmarried borrower or married couple. But if the loan is replaced, or the borrowers marry, the £30,000 limit then applies to the home.

If the loan is in only one person's name it is not a joint mortgage and only the named person is entitled to relief.

Married couples

If you are married you can choose to share the relief with your spouse in any way you want, even if the loan is in only one name. Usually the relief is shared equally but it may be in your interest to share it differently if one of you does not pay tax.

If you want to:

- change the way relief is shared, or
- withdraw an earlier choice you have made

ask your Tax Office or tax adviser for advice.

Homes used partly for business purposes

If you use part of your home:

- exclusively for business purposes, or
- only sometimes for business purposes (but for a significant amount of time and then exclusively)

you can treat the loan used to buy it as two separate loans and claim mortgage interest relief for the part relating to the residential use of the property and make a deduction when you calculate business profits for the part relating to business use.

You can apportion the loan on any reasonable basis that takes account of both the portion of the property used for business purposes and how often it is used for them. For example, if you paid £4,000 interest on a loan of £50,000 to buy your home and use 2 out of 10 rooms exclusively for business purposes you can:

- claim mortgage interest relief for the part of the loan relating to residential use:

$$= £50,000 \times \frac{8}{10} = £40,000$$

This exceeds the mortgage interest relief limit of £30,000 so you can claim relief only on:

$$£4,000 \text{ (interest)} \times \frac{£30,000}{£50,000} = £2,400$$

- make a deduction when you calculate business profits for the part of the loan relating to business use:

$$= £50,000 \times \frac{2}{10} = £10,000$$

The interest deduction you can make is therefore:

$$£4,000 \text{ (interest)} \times \frac{£10,000}{£50,000} = £800$$

See Extra Statutory Concession A89 in leaflet *IR1: Extra Statutory Concessions*, available from the Orderline.

Loans made before 6 April 1988

In addition to the circumstances set out above, you can also claim tax relief on interest payments on a loan made before 6 April 1988 if it was used:

- for home improvements, or
- to buy or improve a home which has been occupied continuously from before 6 April 1988 by
 - your divorced or separated husband or wife (if you were separated before 6 April 1988), or
 - a dependent relative (any relative who cannot work because of old age or permanent illness or disability, who lives in the home rent free).

If the loan to buy a home for a dependent relative was made **before** the loan to buy your own house, you can claim relief up to the £30,000 limit on each loan.

If the loan to buy a house for a dependent relative was made **after** the loan to buy your own home, you can claim relief only up to the £30,000 limit on both loans taken together. If your own home loan is £30,000 or more you cannot claim relief on the loan to buy the home for the dependent relative. But, if your own home loan is less than £30,000 you can claim relief on the loan to buy the home of the dependent relative - but only up to the difference between £30,000 and your own home loans.

If you have taken out a new loan after 5 April 1988 to replace a loan taken out before 6 April 1988, only the part of the loan that replaces that part of the old loan used to buy a home occupied by you is eligible for relief.

Claiming relief

You should make sure you get from your lender (and keep) the certificate of interest you have paid during the year. You may be asked to produce it.

Enter the amount of interest paid, restricted (as explained above) to interest on £30,000, in box 15.2 in your Tax Return. If your loan was in MIRAS for part of the year, you should restrict the claim by the amount already allowed at source.

Life annuities for the over 65s/Home Income Plans

Interest paid on a loan to buy a life annuity is eligible for relief. The loan must be secured on your only or main home and the borrower or the person who receives the annuity must be 65 or over when the loan is made. If the loan is in MIRAS, you have already received the full amount of relief due. The Inland Revenue does not need any more information and you do not need to complete box 15.2. If the loan is not in MIRAS, complete the following calculation.

First, if necessary, restrict the amount of interest to interest on £30,000. (This is explained on page 1 under 'Amount you can claim relief for'.) **Next**, multiply the restricted amount of interest paid by 23 and divide that answer by 15. Enter this figure in box 15.2.

Example

Loan of £45,000 and total interest paid of £3,600.

$$\text{Restrict: } £3,600 \times \frac{30,000}{45,000} = £2,400$$

$$\text{Next: } £2,400 \times \frac{23}{15} = £3,680$$

Finally, enter £3,680 in box 15.2.

OTHER QUALIFYING LOANS

You can claim relief for interest paid on a loan:

- to buy ordinary shares in, or lend money to, a close company in which you own more than 5% of the ordinary share capital, or you own any part of the share capital and work for the greater part of your time in the management and conduct of the company's business, or the business of associated companies
- to acquire ordinary share capital in an employee-controlled company if you are a full-time employee. You are regarded as a full-time employee if you work for the greater part of your time as a director or employee of the company or of a subsidiary in which the company has a 51% interest
- to acquire a share or shares in, or to lend money to, a co-operative which is used wholly and exclusively for the purposes of its business
- to acquire an interest in a trading or professional partnership, or to provide the partnership with funds by way of capital or premium or in advancing money, where the money contributed or advanced is used wholly for the partnership's business
- to buy equipment or machinery for use in your work for your employer, or by a partnership (unless you have already deducted the interest as a business expense) - **provided that** you, or the partnership, were entitled to claim capital allowances on the item(s) in question. If the equipment or machinery was used only partly for your employment, or only partly for the partnership business, only the **business** proportion of the loan interest qualifies for relief.

Interest on loans to buy or improve rental properties should be shown on the Land and Property Pages, available from the Orderline.

You cannot claim relief for interest on overdrafts or credit cards.

If you are not sure whether you can claim relief for any interest paid, ask your Tax Office or tax adviser.

Claiming relief

You should make sure that you get from your lender (and keep) a certificate of interest you have paid during the year. You may be asked to produce it.

Beneficial loan interest

You may also be able to claim relief for any benefit taxable on you if you receive a low-interest or interest-free qualifying loan from your employer. Ask the Orderline for leaflet *IR145: Low interest loans provided by employers*.

Enter the amount of any qualifying interest paid in box 15.3 on page 5 of your Tax Return.