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# New Property Tax Rates for Landlords from 2027/28

## Why Unincorporated Property Income May Become Significantly More Expensive

From the 2027/28 tax year, standalone property income tax rates apply to unincorporated landlords. These rates sit 2 percentage points above the standard income tax bands for non-savings income.

The new rates are:

- 22% on basic rate property income
- 42% on higher rate property income
- 47% on additional rate property income

This reform applies to rental income generated by individuals and partnerships. It does not apply to property held within a limited company, where corporation tax continues to apply.

At face value, a 2% increase may appear modest. In practice, once layered onto mortgage interest restrictions and income thresholds, the impact on net yield can be material.

### 1. How Property Income Is Taxed Under the New Regime

For unincorporated landlords, rental profit is calculated as:

Gross rental income  
less allowable expenses  
equals taxable property profit

That profit is then taxed separately at the standalone property rates.

Importantly, property income still forms part of total income for threshold purposes. This means:

- It can push a taxpayer into higher rate bands.
- It contributes to adjusted net income.
- It can trigger the £100,000 personal allowance taper.

The standalone rate applies to the property slice itself, but its interaction with total income remains critical.

### 2. Modelling Scenario: Higher-Rate Landlord

#### **Assume:**

- Salary: £50,000
- Net rental profit: £40,000

Total income: £90,000

Under the current system (40% higher rate):

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Rental tax:

$$£40,000 \times 40\% = £16,000$$

Under the new standalone property rate (42%):

$$£40,000 \times 42\% = £16,800$$

Additional annual tax cost: £800

On a £40,000 profit, the difference appears manageable. However, scaled across larger portfolios, the impact grows quickly.

### 3. Interaction with the £100,000 Threshold

**Now assume:**

Salary: £75,000

Rental profit: £35,000

Total income: £110,000

Income above £100,000: £10,000

Personal allowance reduction:

$$£10,000 \div 2 = £5,000$$

Loss of personal allowance creates additional tax:

$$£5,000 \times 40\% = £2,000$$

Rental profit is taxed at 42%:

$$£35,000 \times 42\% = £14,700$$

Total tax attributable to rental profit includes:

£14,700 standalone property tax

plus

£2,000 taper-driven tax

Effective marginal rate on part of the rental income exceeds 60%.

For landlords near £100,000 of income, the new standalone rates amplify taper exposure.

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## 4. Five-Year Yield Impact Modelling

### **Assume:**

Portfolio net rental profit: £80,000 per year  
All within higher rate band

Current system at 40%:

$£80,000 \times 40\% = £32,000$  annual tax

New standalone rate at 42%:

$£80,000 \times 42\% = £33,600$  annual tax

Additional annual tax: £1,600

Over five years:

$£1,600 \times 5 = £8,000$  additional tax

This excludes taper effects or income growth.

Where profits increase over time, cumulative leakage becomes more material.

## 5. Corporate Comparison: Holding Property Within a Company

If the same £80,000 profit were generated within a limited company:

Corporation tax at 25%:

$£80,000 \times 25\% = £20,000$

Retained profit: £60,000

Tax deferral is achieved while profits remain in the company.

However, extraction as dividends later may incur further tax.

For a higher-rate shareholder extracting £60,000:

After £500 allowance:

$£59,500 \times 35.75\% \approx £21,271$  dividend tax

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Combined tax:

£20,000 corporation tax  
+ £21,271 dividend tax  
= £41,271

Effective combined rate: approximately 51.6%

The corporate route provides timing flexibility but does not eliminate tax. The decision becomes one of:

- Immediate standalone 42% taxation versus
- 25% now and second-layer tax later

The correct answer depends on reinvestment strategy and income positioning.

## 6. Mortgage Interest and Cash Flow Pressure

Unlike companies, unincorporated landlords remain restricted in their ability to deduct mortgage interest fully. Instead, relief is given via a basic-rate tax credit.

Under standalone rates, this restriction becomes more visible.

### **Assume:**

Rental income: £50,000  
Mortgage interest: £20,000

Taxable profit remains £50,000.

Tax at 42%:

$£50,000 \times 42\% = £21,000$

Basic rate credit:

$£20,000 \times 20\% = £4,000$

Net tax payable: £17,000

Cash profit:

£50,000 income  
– £20,000 interest  
– £17,000 tax  
= £13,000

The effective cash yield is compressed significantly.

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## 7. When Structural Review Becomes Necessary

Standalone property rates particularly affect landlords who:

- Are already higher-rate taxpayers
- Sit close to the £100,000 threshold
- Operate with significant leverage
- Plan to scale portfolios

In some cases, incorporation or partnership restructuring may warrant review. However, incorporation triggers capital gains tax and stamp duty considerations, so modelling must be comprehensive.

## 8. Key Takeaways

The 2% standalone property rate increase appears incremental but materially affects higher-rate landlords.

When layered onto taper exposure and mortgage interest restrictions, effective marginal rates can exceed 60% on portions of rental income.

Property held within a company continues to offer timing flexibility, but not necessarily lower lifetime tax without reinvestment strategy.

Structural decisions should be based on five-year modelling, not headline rates.

## 10. Talk to us

If you hold property personally, we can model:

- Standalone rate impact across multiple years
- Taper exposure
- Cash flow compression
- Corporate comparison scenarios
- Long-term extraction strategy

A structured review ahead of 2027/28 can materially reduce avoidable tax leakage.

You can:

- **Email:** [info@drs-tax.com](mailto:info@drs-tax.com)
- **Telephone:** 020 8059 1891
- **Submit an enquiry** via our [Contact Us](#) page
- **Book a free 15-minute consultation**