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"Once we learnt about the company's problems, we wanted to cancel. The T&Cs would not allow us to do that and Austin Reed promised to honour its contract with us. But we were still worried it would close before the wedding, leaving us no time to hire suits elsewhere.

"Moss Bros read our letter in Money on May 8 and very kindly offered to provide wedding suits free of charge. My son and the other men went for their fitting last Tuesday — the day it was announced that Austin Reed shops will close by the end of the month. We are so grateful to Moss Bros: planning a wedding is always stressful, but this is one thing we do not have to worry about."

Buy-to-let landlords are already paying higher stamp duty. Soon their tax relief will be cut. **Anna Mikhailova** looks at the effect on families

ADRIAN SHERRATT

Trying to do the right thing: Craig and Jane Scott-Dawkins, who have five rental homes, with sons Kristian, 10, Leo, 2, and James, 12

Tax reforms have put our retirement at risk

CRAIG and Jane Scott-Dawkins thought becoming landlords would provide a safety net for their retirement.

The couple, who live in Leamington Spa, Warwickshire, and have three children aged 2, 10 and 12, started off by converting their family home into flats and letting them to students in 2009 — having found a new home to move to themselves.

They now own five buy-to-lets in the spa town and are converting a commercial building into flats. But changes to the tax regime will make life much more difficult and expensive for landlords. In April the rate of stamp duty paid by buyers of "additional homes" — whether a second home in the country or a buy-to-let property — rose by three percentage points.

Next April there will be another blow, as mortgage interest tax relief will gradually be reduced to a flat rate of 20%. This will particularly hurt higher-rate and additional-rate taxpayers, who currently receive relief of 40% and 45% respectively. One expert told Money that, with the distraction of this year's jump in stamp duty, "the restriction to interest relief may have been overlooked" by many landlords.

Craig, 44, and Jane, 48, have mortgages on all their rental properties, taken out through the broker John Charcol. Craig, a chiropractor, said: "It is going to make things a lot more difficult for us. I think we will be pushed into a higher-tax rate [from 20% to 40% and pay more income tax as well as receiving less tax relief].

"On the one hand, the government is telling us we will live longer and we have to make provisions for our retirement. On the other hand, it is trying to force more tax out of anybody who has tried to do so, and is removing the incentives for people to look after themselves in later life."

Jane works for British Airways and she and Craig do have pensions but — like so many others — they have counted on property to provide an income in old age.

"This is our retirement," he said. "Pensions are unpredictable and over the years property has been more stable, so that was the decision we took. And now they are changing all the rules halfway down the road. It is not fair. The government is making people vulnerable."

The exact changes being introduced next year are confusing many landlords and could cost them thousands of pounds. Money runs through the new rules.

HOW DOES THE TAX RELIEF WORK?

At present, buy-to-let landlords can receive tax relief on their mortgage interest costs; it is worth up to 45% for additional-rate taxpayers. To calculate rental profit — on which landlords must pay income tax — take the rental income and deduct any allowable expenses. Under existing rules, these include mortgage interest. The cost of mortgage fees and loans taken out to buy furniture can also be deducted.

WHAT ARE THE CHANGES?

From April 6 next year, it will no longer be possible to deduct mortgage interest from the rental income for tax purposes — a move announced in the chancellor's summer budget last year.

Instead, a "basic-rate reduction" equal to 20% of the interest will be made against the person's income tax liability. The changes are to be phased in over four years, starting from the 2017-18 tax year.

In the first 12 months, 75% of the interest will be deductible as it is now — and the new basic rate will apply to 25% of it. This 25% proportion will gradually increase until it reaches 100% in 2020.

Take a higher-rate taxpayer who earns a salary of £80,000, has a buy-to-let property that generates rental income of £20,000 a year, and who pays mortgage interest of £10,000. This means a profit of £10,000, or £6,000 after 40% income tax.

After next year's changes, the post-tax profit will fall to £5,500, and then it will decline by another £500 each year until 2020-21, when it will be down to £4,000, according to calculations for Money by the accountancy firm Blick Rothenberg.

WHY IS THE RELIEF BEING SCRAPPED?

Supporters of the government's decision argue that wealthier landlords should not benefit from mortgage interest relief, which was scrapped for residential homebuyers more than 15 years ago. When the chancellor made the announcement, he said it would "level the playing field for homebuyers and investors".

WHO WILL BE AFFECTED?

One in five residential landlords is expected to receive less tax relief as a result of the changes, according to the Office for Budget Responsibility.

Nimesh Shah, a partner at Blick Rothenberg, said: "Investors in residential property need to be aware of this marked new change and start planning now.

"While the recent stamp duty changes created the most anxiety among buy-to-let investors, the restriction to interest relief may have been overlooked. But this is likely to have a greater longer-term effect on returns."

Residential landlords who are higher-rate or additional-rate taxpayers and claim tax relief on their mortgage payments will be affected. In addition, some — such as the Scott-Dawkins family — could end up paying more in income tax as a result.

Shah said: "When the new measure takes full effect, the interest cost will be disallowed in computing rental profits and this will mean the individual will have higher overall taxable income. This could push an individual into a higher rate of income tax."

This could have other knock-on effects. Patricia Mock, tax director at the accountancy firm Deloitte, pointed out that landlords could also incur a child benefit charge, if their income increases to more than £50,000, or start to lose their tax-free personal allowance if their income is more than £100,000.

For example, someone who earns £80,000 in salary and receives £40,000 from a buy-to-let portfolio — £25,000 of which goes on paying mortgage interest — has a profit of £15,000 before tax, which is £9,000 after 40% is deducted. With the changes, their total pre-taxed income will reach £120,000 by 2020-21. Because their personal allowance will be reduced, their buy-to-let profit after tax will fall to zero.

BUY-TO-LET MORTGAGES

One silver lining for landlords has been the cheap cost of buy-to-let mortgages, with some lenders offering fixed-rate deals of less than 2%. However, qualifying for a mortgage is becoming more difficult.

Mark Harris of the mortgage broker SPF Private Clients said: "Lenders are already increasing their rental 'stress rates' [the way in which mortgage affordability is calculated] in response to tax relief changes. This means landlords will need to put down bigger deposits and ensure they buy property that produces a good rental return. It will make it much tougher for landlords."

WHAT IF I'M BARELY MAKING A PROFIT?

Landlords should not be afraid of raising rents — although, of course, this would come as a blow to many tenants.

Dan Channer of the Oxford-based lettings agent Finders Keepers said: "Many landlords are reluctant to raise rents even by 2%-3% each year, for fear of alienating tenants. This is foolhardy — a 0% increase on renewal is a self-imposed pay cut."

Check you are using all the available allowances, he said: "You could use the new replacement furniture relief to upgrade the property and achieve a higher rent." Landlords with furnished properties had previously been given a "wear and tear" allowance, which they could deduct from rental income. As of April 6, this is no longer the case. A deduction based on costs incurred when replacing furniture, appliances and kitchenware was introduced.