

Finance Bill 2025-26

Representation from the Association of Taxation Technicians (ATT)

Clauses 6,7 and 8 and Schedule 1: Representation on proposed property income tax rates, increase in restricted finance costs relief and impact on devolved taxes.

Executive Summary

Clauses 6, 7 & 8 introduce new basic, higher and additional tax rates for income tax on property income from 2027/28. The clauses also extend the devolved powers of the Scottish Parliament and Welsh Senedd to permit them to introduce their own tax rates for property income.

Finance costs for a loan related to a dwelling and associated costs of obtaining finance are not deductible from rental profit for tax purposes. Instead, they are treated as a tax reducer (restricted finance costs) based on the UK basic rate of tax (ITTOIA 2005 s 274AA). This has led to anomalies where the devolved income tax rates and bands do not match those in the rest of the UK. The proposed changes could further exacerbate this issue.

This change provides an opportunity to address the current situation and address future anomalies and inequities caused by tax being charged at a devolved basic rate, but the reducer given at a different basic rate.

We recommend that consideration is given to alternative relief calculations for Scottish and Welsh taxpayers, from 2026/27 if possible, but at the latest from 2027/28

1. Background

- 1.1. Finance costs, such as mortgage interest, for a loan related to a dwelling are not an allowable deduction from property rental profit for tax purposes. These costs are referred to as restricted finance costs. Instead, relief is given as a tax reducer based on the UK basic rate of tax (currently 20%).
- 1.2. The devolved parliaments of Scotland and Wales have the power to set their own rates on all income, other than savings and dividends, but do not currently have the power to apply specific rates to distinct types of taxable income such as property rental income or to create or alter income tax reliefs. The Scottish Parliament also has the power to set tax bands.
- 1.3. To date, the Welsh Senedd has not exercised its power to alter tax rates. However, the Scottish Parliament does set its own income tax rates and bands for devolved income (see table 1).

2. Changes introduced in Finance Bill 2025-26

- 2.1. The proposal in the Finance Bill creates distinct property income tax rates of 22% (basic rate), 42% (higher rate) and 47% (additional rates) for non-Scottish, non-Welsh taxpayers.
- 2.2. Property income will be taxed after other income sources but before savings and dividend income.

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2.3. In addition, it is proposed that the relief for restricted finance costs will be increased from the current basic rate of 20% to the property basic rate of 22%. As tax reliefs are not devolved, this rate will apply to both Scotland and Wales taxpayers regardless of the tax rates their jurisdictions may set.

2.4. Schedule 2 of the Finance Bill extends the devolved powers of the Scottish Parliament and Welsh Senedd to permit them to introduce their own tax rates for rental property income.

3. Consequences of proposed change

3.1. As can be seen from Table 1, relief for restricted finance costs only matches the basic rate tax paid when these rates are the same. As Scotland, and potentially Wales, can set their own rates there is no guarantee that the relief will match the tax paid. This creates inequity between jurisdictions.

3.2. As a result, taxpayers in Scotland or Wales could receive more or less relief than the actual tax paid within the equivalent UK property basic rate band depending on individual circumstances and devolved rates of tax. For example, a Scottish taxpayer paying tax at the Scottish Intermediate rate of 21% currently only receives relief for restricted finance costs at 20%.

4. Recommendations

4.1. We would recommend that consideration is given to alternative relief structures for Scottish and Welsh taxpayers.

4.2. One possible alternative would be to introduce a specific relief rate in alignment with the highest property rate of the jurisdiction concerned that falls within the UK basic rate band. Relief for property income falling within lower basic rate bands would be capped at those rates.

4.3. This proposal is fairer because it aligns tax relief with the actual tax rates applied in each jurisdiction. Under the current system, finance cost relief is fixed at the UK basic rate of 20%, even though Scottish and UK taxpayers may pay different rates within the same income band. This mismatch creates inequity, as some taxpayers receive more relief than the tax rate they pay, while others receive less. Adjusting relief accordingly ensures consistency and promotes neutrality across regions. It also improves transparency and makes the system easier for taxpayers to understand, reducing confusion.

Table 1: Comparison of 2025/26* Scottish and UK Income Tax Rates up to UK Basic Rate level**

Band	Scottish Range	Scottish Rate	Rest of UK Range	Rest of UK Rate
Personal Allowance*	£0 – £12,570	0%	£0 – £12,570	0%
Scottish Starter / UK Basic	£12,571 – £15,397	19%	£12,571 – £43,662	20%
Scottish Basic / UK Basic	£15,398 – £27,491	20%		
Scottish Intermediate/UK Basic	£27,492 – £43,662	21%		
**Remainder of UK Basic			£43,663 –£50,270	20%

* Assumes individuals are in receipt of UK personal allowance

** Scottish taxpayers pay higher rate tax from £43,663 and UK taxpayers from £50,271

*** 2026/27 and 2027/28 Scottish rates and bands not yet available

Association of Taxation Technicians

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Note:

The Association of Taxation Technicians

The Association is a charity and the leading professional body for those providing UK tax compliance services. Our primary charitable objective is to promote education and the study of tax administration and practice. One of our key aims is to provide an appropriate qualification for individuals who undertake tax compliance work. Drawing on our members' practical experience and knowledge, we contribute to consultations on the development of the UK tax system and seek to ensure that, for the general public, it is workable and as fair as possible.

Our members are qualified by examination and practical experience. They commit to the highest standards of professional conduct and ensure that their tax knowledge is constantly kept up to date. Members may be found in private practice, commerce and industry, government and academia.

The Association has over 10,000 members and Fellows together with over 7,000 students. Members and Fellows use the practising title of 'Taxation Technician' or 'Taxation Technician (Fellow)' and the designatory letters 'ATT' and 'ATT (Fellow)' respectively