Residential finance cost restriction: unused finance costs

For unincorporated property businesses, tax relief for finance costs on a dwelling-related loan is restricted to the basic rate of tax – 20% (22% from April 2027). This means that individuals who pay tax at the higher (40%) (42% from April 2027) or additional (45%) (47% from April 2027) rates will not receive full tax relief for such costs.

This factsheet examines some further restrictions to the relief that can result in unused finance costs.

What finance costs are subject to the restriction?

The restriction applies to individual landlords, as well as trustees, partnerships and limited liability partnerships (LLPs). It does not apply to businesses that are taxed as a trade, such as a hotel or guesthouse.

Limited companies are not caught by the rules.

Costs subject to the restriction are those incurred in relation to loans or mortgages that are taken out for the purposes of a residential property letting business.

Finance costs can include mortgage or loan interest and incidental costs of obtaining finance such as arrangement fees and the legal costs associated with obtaining the loan. Valuation fees may also be in the scope of the rules.

How is the tax reducer calculated?

Relevant finance costs are not deducted as an expense from the profits of a property business. Instead, tax relief for these expenses is given by way of a 'tax reducer' – an amount deducted from an individual's tax bill.

The tax reducer is calculated as 20% of the lower of:

- Finance costs not deducted from income, plus any unused finance costs brought forward; or
- The profits of the property business, less any unused rental losses brought forward; or
- The taxpayer's adjusted total income (ATI).

ATI is an individual's total income (excluding savings and dividend income) less allowances such as the personal allowance.

If the property business profits or the individual's ATI is lower than the amount of finance costs, those costs will not be included in the tax reducer calculation and can be carried forward.

Unused, carried forward finance costs are treated as though they are incurred in the following year.

How is this shown in the self-assessment tax return?

Unused finance costs brought forward from a previous tax year are shown in box 45 of the self-assessment tax return. Unused finance costs carried forward are shown in box 45a.

Further information

HMRC's guidance on the finance cost restriction can be viewed here:
https://www.gov.uk/guidance/changes-to-tax-relief-for-residential-landlords-how-its-worked-out-including-case-studies

This document has been prepared for information purposes and does not constitute advice. All information deemed correct as at December 2025