

Bespoke ICRs

Background

The Interest Coverage Ratio (ICR), which was previously calculated at 125%, is changing as a result of the buy to let tax changes which were announced in July 2015. The changes will have a material impact on the size of loan available to your customer.

What are ICR rates changing to?

Basic rate tax payer 125%	Higher rate tax payer 145%	Additional rate tax payer 160%	Limited Company 125%	Bespoke ICR 125-160%
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What is bespoke ICR?

As a specialist lender we can create a bespoke ICR which will reflect your customer's tax position more accurately. In the majority of cases, this will help your customer achieve the loan size they want. Please be aware that the DIP decision will be based on the tax band your customer selects. As the application proceeds, the loan amount outlined at DIP may change.

What do you need to do next?

We can create a bespoke ICR if:

- ▶ Rental income from the property being purchased moves your customer into a higher tax band.
- ▶ Joint applicants are in differing tax bands, eg one pays basic rate, the other pays higher/additional rate.
- ▶ Joint ownership is set up as tenants in common.

If your customer fits into one of these scenarios, along with an application form, you also need to complete a Bespoke ICR Submission Form which can be found on our website.

When submitting the case online, select basic rate tax payer – we'll calculate the ICR from the information you've provided.

If you are uncertain about a bespoke ICR:

- ▶ If you're not sure whether your customer qualifies, complete the application form and we'll run it through our calculator to determine if they're eligible for a bespoke ICR. If they are, you'll need to complete a Bespoke ICR Submission Form which can be found on our website.

When completing the form, state your customer is a basic rate tax payer – we'll calculate the ICR from the information you've provided.

The ICR applicable to the customer will be used in all calculations. Please note that unless a bespoke ICR is created, calculations will be based on the higher of the tax bands for joint applicants.

Please note: Specific financial planning could help your customer to find a solution to their tax exposure. Customers should be advised to speak with an independent tax advisor before making any decisions on their buy to let purchases.

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