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## Buy to Let Properties

In recent years, the stock market has had its ups and downs. Add to this the serious loss of public confidence in pension funds as a means of saving for the future and it is not surprising that investors have looked elsewhere.

The UK property market, whilst cyclical, has proved over the long-term to be a very successful investment. This has resulted in a massive expansion in the buy to let sector.

Buy to let involves investing in property with the expectation of capital growth with the rental income from tenants covering the mortgage costs and any outgoings.

However, the gross return from buy to let properties - ie the rent received less costs such as letting fees, maintenance, service charges and insurance - is no longer as attractive as it once was. Investors need to take a view on the likelihood of capital appreciation exceeding inflation.

### Factors to consider

- Do
- think of your investment as medium to long-term
  - research the local market
  - do your sums carefully
  - consider decorating to a high standard to attract tenants quickly.
- Don't
- purchase anything with serious maintenance problems
  - think that friends and relatives can look after the letting for you - you're probably better off with a full management service
  - cut corners with tenancy agreements and other legal documentation.

### Which property?

Investing in a buy to let property is not the same as buying your own home. You may wish to get an agent to advise you of the local market for rented property. Is there a demand for say, two bedroom flats or four bedroom houses or properties close to schools or transport links? An agent will also be able to advise you of the standard of decoration and furnishings which are expected to get a quick let.

### Agents

Letting property can be very time consuming and inconvenient. Tenants will expect a quick solution if the central heating breaks down over the bank holiday weekend! Also do you want to advertise the property yourself and show around prospective tenants? An agent will be able to deal with all of this for you.

### Tenancy agreements

This important document will ensure that the legal position is clear.

### Taxation

When buying to let, taxation aspects must be considered.

### Tax on rental income

Income tax will be payable on the rents received after deducting allowable expenses. Allowable expenses include mortgage interest, repairs, agent's letting fees and an allowance for furnishings.

### Tax on sale

Capital gains tax (CGT) will be payable on the eventual sale of the property. The tax will be charged on the disposal proceeds less the original cost of the property, certain legal costs and any capital improvements made to the property. This gain may be further reduced by any annual exemption available and is then subject to a flat rate of CGT of 18%.

### Student lettings

Buy to let may make sense if you have children at college or university. It is important that the arrangement is structured correctly. The student should purchase the property (with the parent acting as guarantor on the mortgage). There are several advantages to this arrangement.

### Advantages

This is a cost effective way of providing your child with somewhere decent to live.

Rental income on letting spare rooms to other students should be sufficient to cover the mortgage repayments from a cash flow perspective.

As long as the property is the child's only property it should be exempt from CGT on its eventual sale as it will be regarded as their main residence.

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The amount of rental income chargeable to income tax is reduced by a deduction known as 'rent a room relief'. This is £4,250 each year. In this situation no expenses are tax deductible. Alternatively expenses can be deducted from income under normal letting rules where this is more beneficial.

## Furnished holiday lettings

Furnished holiday letting is another type of investment that could be considered. This form of letting is short holiday lets as opposed to letting for the residential market. It has some advantages but it has other disadvantages which should also be considered.

### Advantages

You will be able to take a holiday in your own property, or make it available some of the time to your family or friends. However, care would need to be taken to adjust the level of expenses claimed to reflect this private use.

Generally however the rules for allowable expenditure are more generous.

The income is regarded as 'trading income' for tax purposes and is treated as earnings for pension contribution purposes.

For capital gains tax purposes, 'furnished holiday letting' assets are treated as business assets. This means any gains should be eligible for Entrepreneurs' relief, which can reduce gains of up to £1 million by 4/9. The gains alternatively could be deferred using holdover relief on a gift or rollover relief where the asset is sold and another 'trading' asset is acquired. If further details on capital gains tax reliefs are required please see the factsheet on Capital Gains Tax or contact us.

### Disadvantages

Holiday letting will have higher agent's fees, advertising costs, and maintenance fees (for example more regular cleaning).

Owning a holiday property may be more time consuming than you think and you may find yourself spending your precious holiday sorting out problems.

### Changes to the rules

As can be seen from the above furnished holiday lettings are treated as a trade for certain taxation purposes, which is generally more preferential in terms of loss reliefs and CGT reliefs. A key condition for property to qualify as furnished holiday lettings is that it is situated in the UK. Due to the possible incompatibility of the rules with European law, two significant announcements have been made. The current law is to be repealed with effect from 2010/11 but until then furnished holiday lettings situated in the European Economic Area (EEA) are qualifying furnished holiday lettings provided they meet the other conditions.

## How we can help

Whilst some generalisations can be made about buy to let properties it is always necessary to tailor any advice to your personal situation. Any plan must take into account your circumstances and aspirations.

Whilst a successful buy to let cannot be guaranteed, professional advice can help to sort out some of the potential problems and structure the investment correctly.

We would be happy to discuss buy to let further with you.

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