

Residential Property

Buy-to-let

Finances

Successful buy-to-let relies on ensuring that your investment makes financial sense. Rather than buying a property that you personally would like to live in, you need to focus on the prospects for income and capital growth, and the costs that you will need to cover. Key factors to consider include:

- The local property market and the outlook for house prices.
- What kind of tenants you are hoping to attract, and what they look for in a property.
- What rental income you can expect to achieve, and how this compares to your financing costs.
- The other costs you will need to meet, including maintenance costs and agents' fees for finding and managing tenants (if required).
- How you will cope financially with "void" periods when your property is empty and so producing no rental income.

If you are financing the purchase using a mortgage secured on the property, you will need to arrange a mortgage that allows you to let the property out. Buy-to-let mortgages like this are widely available, though the interest rate may carry a small premium. You will normally need to have a substantial deposit available and an expected rental income comfortably in excess of your monthly mortgage payments.

You will also want to ensure that the building and (your) contents are insured. Again, you will need to inform your insurer that you are letting out the property. Specialist landlord's insurance can offer additional protection including cover for landlord's liability and legal expenses (eg if one of your tenants is injured and claims against you).

Landlord's responsibilities

As a landlord, you have broad responsibility for the safety of tenants and visitors to your property, and could be liable if someone is harmed. Specific requirements include:

- Having gas appliances checked every 12 months by a CORGI-registered gas installer.
- Ensuring that electrical appliances are safe.
- Ensuring that most kinds of upholstered furniture (eg sofas) and furnishings meet fire resistance standards.

If you lack expertise, you may want to ask an expert (eg a letting agent) to check over the property with you and advise you on problem areas. Older properties that have not been upgraded are more likely to fail to meet modern standards, both legally and in terms of what tenants expect.

Once you have refurbished the property, you should put in place a regular system of inspecting the property for potential safety problems (perhaps annually). A system like this, together with good recordkeeping, will help you show that you have taken reasonable safety precautions.

Letting out your property to several tenants - for example, providing bedsit accommodation - may require a licence from your local authority and additional safety measures (such as fire safety precautions).

Dealing with tenants

You need to decide whether you will deal with tenants yourself, or use a letting agent to handle some or all of the tasks involved. Before signing any agency agreement you should check the costs and what services will be provided. Reputable agents should be a member of a trade association such as the Association of Residential Letting Agents.

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Whether carried out by you or an agent, key tasks will include:

- Checking that prospective tenants are creditworthy and asking for references from their previous landlord and their employer.
- Ensuring that you have a proper written legal agreement. In most cases, an "assured shorthold tenancy" is the most appropriate form of agreement, and minimises the risk of problems at the end of the lease. Your lawyer can advise you if a different form of agreement is required (eg for letting a holiday cottage).
- Taking a deposit (typically at least one month's rent). Under assured shorthold tenancy, the deposit must be protected by an authorised tenancy deposit scheme.
- Arranging an inventory of the contents and their condition for the tenant to sign before moving in.
- Arranging for rent to be paid - typically by standing order. If at any stage a payment is missed, you should contact the tenant straight away to find out what the problem is and see if you can negotiate a solution.
- Carrying out any maintenance or repairs needed and providing any additional services agreed.
- Dealing with any complaints from the tenants.
- Periodically inspecting the property (perhaps every six months) to assess any potential problems. Your rights of inspection must be included in the tenancy agreement.
- Managing the end of the tenancy, including a closing inventory and resolving any disputes over the deposit (for example, if the property has been left in a poor condition).
- Carrying out any redecoration or repairs needed before the property can be let to a new tenant.

If you have problems during the tenancy or at its end (for example, if a tenant persistently fails to pay rent or refuses to leave) you may need to take legal advice. In practice, your best option may be to negotiate for the tenant to leave - even if you have to write off unpaid rent - rather than going through the courts.

Taxes

Rental profits from buy-to-let property are taxable: for example, if you own the property directly (rather than through a company) income tax is payable.

Profits are calculated as rental income less allowable expenses. Allowable expenses include most running costs (such as agents' fees, costs of repairs and the interest on any mortgage) are allowable. You can also claim one of two allowances to reflect the costs of furniture and equipment in a furnished residential letting:

- Either an annual wear and tear allowance of ten per cent of the net rent.
- Or a renewals allowance covering the additional cost of replacement items (as and when you replace them).

The costs of buying and improving the property are not an allowable expense for tax purposes. For example, if you have a repayment mortgage, the capital repayment element of your mortgage payments is not allowable.

More favourable tax rules can apply to a property which qualifies as a holiday letting (let for short holidays and meeting various qualifying criteria).

When you sell a buy-to-let property, the capital gain you make is subject to capital gains tax (CGT). The gain is calculated after taking into account the costs of buying, improving and selling the property. Capital gains in excess of your annual CGT allowance (£9,600 for 2008/09) are taxable at 18%. However, you may be able to claim relief - for example, if you will be using the sale proceeds to buy another buy-to-let property. Special rules will also apply if at any stage you have used the property as your own main residence.

The detailed tax rules are complex, and tax planning may help you to reduce your tax liabilities. You should take advice.

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