Welcome
Mortgage Solutions Limited

BUY TO LET GUIDE 2014

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Introduction

This guide has been put together to help answer some of the most common questions when looking to buy a property to let.

It gives general advice on areas such as :

- Help with finding a suitable property
- How buy to let mortgages work
- Taxation on rental income
- Capital Gains Tax

It is not meant as a definitive guide as legislation may change over the course of time since this produced. You should always seek professional advice from tax specialists and accountants before entering into any transaction.

Finding A Property

The most important point to remember here is that the property you are buying is not for you to live in. It does not have to meet your taste and standards – it has to attract a tenant.

First of all, decide how much you are willing to spend on a property – you may need to discuss this with a mortgage broker – this is where we come in.

Secondly, decide on the type of tenant you would like – a family, professional person or a couple. Then look for a property that is likely to be suitable for that person.

There are two main factors in deciding which property to buy :

- Location (in relation to potential capital growth)
- Ratio of property price to rental income

Historically, property prices have risen over the longer term. The location may well affect how quickly the price goes up or if it maintains its value if prices begin to fall. It will also help to determine the "rentability" of a particular property and the type of tenant who would be interested in living there.

The other factor is the price you pay compared to the rent you receive – called the property yield. In 2007, a good yield was considered to be around the 6% mark, but this has now dropped and a more common figure is 5%.

Yield is calculated by dividing the annual rent received by the property purchase price and multiplying by 100.

For example, you are buying a property for £150,000 with a rental income of £600 per calender month. The calculation would look like this :

Yield = (£7,200 / 150,000) x 100 = 4.8%

So you have a yield of 4.8%

Compare this with a property you are buying for £135,000 that would provide a rental income of £575 per calender month.

Yield = (£6,600 / 135,000) x 100 = 5.11%

Your yield on this property is therefore better at 5.11%.

Calculating the yield of different properties helps decide between similar properties which one provides the better value from a rental perspective but it does not give you an indication of its capital growth potential.

Although one property may have a greater yield, the location may not be as desirable and so you may not get as good a return from any increase in property prices as a similar property, with a worse yield, in a more prime location.

It is for this reason that you need to consider both factors together – location and yield – rather than looking in isolation at one or the other.

Arranging Finance

This is where Welcome Mortgage Solutions Ltd can help. We are mortgage brokers who search the whole of the market and have been successfully arranging mortgages for thousands of clients over the last 10 years.

Our approach is simple :

Our aim is to find you the best value deal from all those that are available. We work for YOU and not for the banks, building societies or estate agents that you come into contact with.

Some mortgage brokers, particularly those based in estate agents, will not look at the whole of the market for the best deal but just a panel of lenders. We look at all the lenders and all the deals.

How we can help :

- Get a mortgage agreed in principle for you before you start looking for a property
- Search the market for the best value mortgage deal
- Calculate the yield on any potential purchases
- Arrange landlords insurance on your new property
- Arrange a rent protection policy to help safeguard your rent
- Arrange for referencing to be done on your prospective tenants

For your personal illustration and consultation, call 0844 736 1920 now.

General Points on Buy to Let Mortgages

Minimum 20% deposit required with some lenders

Most lenders require 25% deposit

There are usually minimum income requirements (around £25,000)

It is the rental income that dictates borrowing ability not personal income in most cases

Each lender calculates this is in a different way but as a general rule, the rent should cover 125% of the monthly mortgage payments on an interest only basis

Interest rates tend to be slightly higher than main residence

Mortgages can be repayment or interest only or a combination of both

There is no requirement to have a repayment vehicle for any interest only element of a buy to let mortgage

Deposit Requirements

This will vary according to the following factors :

- Purchase Price of the property
- Rental Income

As it is normally the rental income that determines how much you can borrow rather than your own personal income, how much deposit you need to put down will depend on the relationship between the two factors above – and we will only know this when you have found a property you are interested in.

However, it will always be subject to a minimum of 20% of the purchase price in the current economic climate but this has not always been the case.

Emergency Fund

In addition to the deposit monies, it is also sensible to keep some extra money back in case of emergencies.

As you will still be responsible for the maintenance and upkeep of the property, the emergencies may not be your fault but they will be your responsibility.

So if the boiler doesn't work or the electricity fails, you will have to put it right.

To cover potential maintenance liabilities, missed rental payments and periods when there is no tenant in the property, we would recommend putting aside the equivalent of 6 months rent as an emergency fund.

Interest Only or Repayment Mortgage

The answer to this question lies in your motivation for buying a property to let out i.e

- To make a profit each month
- To take advantage of long term property price rises
- To create a long term asset

Obviously, the idea is for a buy to let mortgage to be financed by the rent received. However, by having a repayment mortgage, the monthly cost is greatly increased and this may not be the case. The positive side is that you are creating further equity by paying off the mortgage and so are increasing your long term profitability.

This will obviously depend on the size of the deposit that you put down.

As a general guideline, the following situations usually apply although will vary from person to person according to their specific aims and goals :

- Small Deposit and want to maximise monthly income/ keep the property self-financing = interest only
- Large deposit and maximise monthly income = interest only
- Small deposit and happy to fund the mortgage to create a long term asset = repayment
- Large deposit and long term asset desire = repayment

How Much Can I Borrow ?

As with the deposit section, this depends on the price of the property and the rental income likely to be achieved for the property – as valued by the lenders surveyor not an estate agent !

All lenders have different criteria for working out how much you could borrow according to the rental value of the property.

As a general rule, this is 125% of the monthly mortgage payment calculated on an interest only basis although there are many variations on this theme.

The table below gives a rough guide to the rent required by a lender in order to borrow varying amounts of money.

Mortgage Amount	Rent Required by lender
£225,000	£1,290
£200,000	£1,149
£175,000	£1,003
£150,000	£860
£125,000	£717
£100,000	£573
£75,000	£430
£50,000	£287

The calculations for each lender do vary considerably and so this table should not be treated as an absolute statement of fact but merely a rough guide on which to start your thought-processes.

This is based on 125% of a monthly interest only payment charged at 5.5% and many lenders offer better terms than this.

How much will the mortgage payments be ?

As all of the mortgage deals are changing from day to day, it is impossible to say in a general guide of this nature.

To see a selection of the best buy to let deals available at present, please visit

www.wmsltd.weebly.com/best-buys.html

Please call 0844 736 1920 for a personal illustration according to your own circumstances.

YOUR PROPERTY IS AT RISK IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE

Protecting Your Rent

One of the biggest concerns that landlords have is that the rent will not be received. This can be quite frightening as it may well leave you paying two mortgages.

As it is always advisable to put aside monies as an emergency fund, it would also be sensible to arrange cover so that your rent is guaranteed whilst you have a tenant in situ.

Welcome Mortgage Solutions Ltd have partnered with several leading insurance companies to offer a range of options that ensure you will receive your rent.

And if you prefer to find your own tenants rather than relying on estate agents, we can even arrange for them to be fully vetted including credit checks and employers' references.

Please call 0844 736 1920 for further details.

The following sections have been sourced from www.gov.uk and Welcome Mortgage Solutions Ltd can accept no liability for any incorrect information or omissions. Always seek professional legal and accounting advice before entering into any transaction.

Tax on rent from residential property lettings

Letting residential property is treated as a single business, even if you let out more than one property. If you let out several properties, you can offset losses from one against profits from another. You pay tax on any profit as part of your overall income.

What counts as residential lettings?

Properties that you let out for people to live in as their home count as 'residential lettings'. For tax purposes these are treated differently from furnished UK holiday lettings.

If you rent out part of your own home this can also count as residential lettings, but you can take advantage of the 'Rent a Room' scheme instead.

This lets you get tax-free income of up to £4,250 per annum from letting rooms in your home.

Working out your taxable profits from residential lettings

Step one

You work out your 'net profit' as follows:

- add up all your rental income
- add up all your 'allowable expenses'
- take your allowable expenses away from your income

If you have more than one residential letting, you group all the income and all the expense figures together.

Step two

To arrive at your taxable profit deduct any allowances you're entitled to from you net profit:
If you let furnished property, you can deduct either of:

- a 'wear and tear' allowance - based on a percentage of your rent
- a 'renewals' allowance - the cost of replacing old items with a new equivalent (but you deduct any money you get from selling the old item)

You may also be able to deduct certain 'capital' allowances for the cost of equipment relating more generally to your lettings business - check the detail in our related article.

Reporting your profits to your Tax Office

If your profit is less than £2,500

If you're employed, or getting a pension through PAYE, and your taxable income from property is less than £2,500, your Pay As You Earn (PAYE) tax code can be adjusted to collect the tax on your property income each year. Just ask your Tax Office to send you form P810 to report your income each year.

Contact details for your Tax Office are on your payslips or you can find them online.

If your profit is £2,500 or more or you're not on PAYE

In this case you'll need to fill in a Self Assessment tax return (you may do this already, if not contact your Tax Office).

If your total income from UK property is £15,000 or more in a tax year you must declare it on the land and property pages of the full Self Assessment tax return. If it's below £15,000 you may be able to complete a shorter four-page return.

When you fill in your tax return, put in the rents and expenses for the year they relate to - it doesn't matter when you actually receive and pay them.

Both types of return have help notes.

If you complete the full return, it's quickest and simplest to file online. The figures you put in add up automatically. The filing deadlines are also more generous if you don't want to work out your tax bill yourself.

How much tax will you pay?

Your taxable profit from property letting is added to your overall income. If this is more than your tax allowances you'll pay tax on it at your normal Income Tax rates.

If you let property jointly

If you let property with someone else, when you fill in your tax returns, or forms P810, you should each show your share of:

- the income and expenses
- the profit (or loss)

The help notes for your tax return explain how to do this.

Paperwork that you need to keep

You'll have to keep records of your property letting business for six years after the tax year they're for. You need them to back up the figures you put on your tax return. Your records should include details of:

- all the rent you receive and the dates when you let out the property
- any income from services provided to tenants
- your business expenses
- rent books, receipts, invoices and bank statements

Expenses and allowances on income from property

If you let out property you can deduct certain expenses and tax allowances from your rental income to work out your taxable profit (or loss). If you have several UK residential lettings you pool the income and expenses together. But you work out holiday letting and overseas letting profits separately.

Allowable expenses

The expenses you can deduct from letting income (unless it's under the Rent a Room scheme) include:

- letting agent's fees
- legal fees for lets of a year or less, or for renewing a lease for less than 50 years
- accountant's fees
- buildings and contents insurance
- interest on property loans
- maintenance and repairs to the property (but not improvements)
- utility bills (like gas, water, electricity)
- rent, ground rent, service charges
- Council Tax
- services you pay for, like cleaning or gardening
- other direct costs of letting the property, like phone calls, stationery, advertising

If your annual income from the letting is less than £15,000 (before you've taken off expenses) you include the total expenses on your tax return; if it's £15,000 or over you need to provide a breakdown.

Bear in mind that you can only claim expenses that are solely for running your property letting business. If the expense is only partly for running your business (or if you use the property yourself) then you may only be able to claim part of it.

Non-allowable expenses

When you work out your profit, you can't deduct:

- 'capital' costs, like furniture or the property itself
- personal expenses - costs that aren't to do with your letting business
- any loss you make when you sell the property

But you may be able to claim some allowances instead.

Allowances that can reduce your taxable profit

There are different types of allowance you may be able to claim for your capital costs. Capital costs include expenditure you make on assets like furniture and machinery. The allowances you can claim for some of your capital costs vary according to the type of letting.

UK and overseas furnished residential lettings

For furniture and equipment provided with a furnished residential letting (excluding UK furnished holiday lettings) you can claim a 'wear and tear' allowance. The allowance is 10 per cent of the 'net rent' - this being the rent received less any costs you pay that a tenant would usually pay.

As an alternative to the wear and tear allowance, you can claim a 'renewals' allowance. This covers the cost of replacing furniture or equipment, including small items like cutlery. To work it out, take the cost of the replacement item and deduct from it:

- the amount you sold the old one for (if you got anything for it)
- anything extra you paid for a better one

Once you've chosen which of these allowances to claim for a property, you can't switch between them from year to year.

UK Furnished holiday lettings

For this type of letting you can claim a 'capital allowance' for the cost of each item of furniture and equipment you provide with the property. Or you can claim a renewals allowance (explained above). You can't claim wear and tear allowances.

Once you make a choice for each item, you must keep to it.

All letting properties

Whatever the type of letting, you can claim a capital allowance on the cost of things that you need for running your property letting business, like cleaning and gardening equipment. You can also claim for equipment that isn't for the use of a single let property, like a boiler that heats more than one property.

How much capital allowance can you claim?

The allowance depends on what you buy. You can usually claim 50 per cent of the cost when you buy it - but sometimes 100 per cent for some environmentally friendly expenditure. Each year after that you can claim 25 per cent of what's left. HM Revenue & Customs (HMRC) changes the percentages from time to time. The allowance is deducted along with other expenses in calculating your profits.

You'll get smaller allowances if you use the item privately or for anything other than your business.

Which year do expenses belong to?

You have to allocate expenses to the year they apply to - it doesn't matter when you actually pay them. Sometimes you may have to allocate part of an expense to one year and part to another.

Losses

Normally, if your letting business makes a loss, you can carry it forward to a later year and offset it against your future profits from the same business. If it's a UK holiday letting business you can offset your loss against all of your other income, not just your property income.

Records relating to the purchase or sale of a let property

If you sell or dispose of a property that’s not your main home and its value has increased since you acquired it, you may have to pay Capital Gains Tax (CGT). Some of your property costs can be deducted when working out your gain, so you'll need a record of:

- when you bought or acquired it
- when you sold or disposed of it
- the purchase and sale price
- any buying and selling costs, like Stamp Duty and legal fees
- improvement costs and dates

You may qualify for other reliefs or allowances depending on how long you've owned the property and if it was ever your main home.

If you have a single lodger, this will not affect your entitlement to relief when you sell your main home but they must live as part of your family. If you have more than one lodger, you will be treated as letting part of your home and might have to pay some CGT.

If the property was used for a UK furnished holiday letting business there are special CGT reliefs.

Tax on selling property

If you're selling a property that is your main home you won't have to pay tax on it - provided you satisfy certain conditions. If you're selling a property that isn't your main home, it is likely that you will have to pay Capital Gains Tax (CGT).

Tax on the sale or disposal of your main home

You do not have to pay tax as long as:

- you bought it, and made any expenditure on it, primarily for use as your home rather than with a view to making a profit
- the property was your only home throughout the period you owned it (ignoring the last three years of ownership)
- you did actually use it as your home all the time that you owned it and, throughout that period, you did not use it for any purpose other than as a home for yourself, your family and no more than one lodger
- the garden and area of grounds sold with it does not exceed 5,000 square metres (about one and a quarter acres) including the site of the house

If you are married or in a civil partnership and not separated you and your spouse or civil partner can have only one such residence between you.

Even if all these conditions are not met, you may still be entitled to tax relief.

Tax on property that's not your main home

You will normally have a chargeable gain if your property is worth more than you paid for it when you sell or dispose of it. However, the first £10,900 of your total taxable gains are tax free (for the tax year 2014-15).

It's worth bearing in mind that:

- when working out the chargeable gain you can deduct some of the costs of buying, selling and improving the property
- if you have made a loss on the property, you may be able to set that off against other chargeable gains you may have
- if you are living together you can transfer property to your husband, wife or civil partner without having to pay CGT, but if you give it or sell it cheaply to your children or to others, you may be liable to pay CGT

What paperwork do you have to keep?

HM Revenue & Customs (HMRC) recommends that you keep the following information and documents relating to the property:

- contracts for the purchase or sale, lease or exchange of the property
- any documentation that describes properties you acquired but did not buy yourself: for example, a gift or an inheritance
- details of any property you have given away or put into a trust
- copies of any valuations taken into account in your calculation of gains or losses
- bills, invoices or other evidence of payment records such as bank statements and cheque stubs for costs you claim for the purchase, improvement or sale of the property

It would also be sensible to keep correspondence with buyers or sellers leading up to the sale of the property.

Capital Gains Tax

Capital Gains Tax is a tax on capital 'gains'. If, when you sell or give away an asset it has increased in value, you may be taxable on the 'gain' (profit). This doesn't apply when you sell personal belongings worth £6,000 or less or, in most cases, your main home.

When do I have to pay Capital Gains Tax?

You may have to pay Capital Gains Tax if, for example, you:

- sell, give away, exchange or otherwise dispose of (cease to own) an asset or part of an asset
- receive money from an asset - for example compensation for a damaged asset

You don't have to pay Capital Gains Tax on:

- your car
- your main home - provided certain conditions are met
- ISAs or PEPs
- UK Government gilts (bonds)
- personal belongings worth £6,000 or less when you sell them
- betting, lottery or pools winnings
- money which forms part of your income for Income Tax purposes

These are some points to bear in mind:

- if you are married or in a civil partnership and living together you can transfer assets to your husband, wife or civil partner without having to pay Capital Gains Tax
- you can't give assets to your children or others or sell assets cheaply without having to consider Capital Gains Tax
- if you make a loss you may be able to make a claim for that loss and deduct it from other gains, but only if the asset normally attracts Capital Gains Tax - for example you cannot set a loss on selling your car against gains from disposing of other assets
- if someone dies and leaves their belongings to their beneficiaries, there is no Capital Gains Tax to pay at that time - however if an asset is later disposed of by a beneficiary, any Capital Gains Tax they may have to pay will be based on the difference between the market value at the time of death and the value at the time of disposal

How Capital Gains Tax is worked out

Capital Gains Tax is worked out for each tax year (which runs from 6 April one year to 5 April the following year). It is charged on the total of your taxable gains, after taking into account:

- certain costs and reliefs that can reduce or defer gains
- allowable losses you have made on assets to which normally Capital Gains Tax applies
- the annual exempt (tax-free) amount - this is £10,900 for every individual in the tax year 2014-15

Capital Gains Tax rate

For 2011-12 onwards, 18 per cent and 28 per cent for individuals (the rate used will depend on the amount of their total taxable income and gains)

How you pay Capital Gains Tax

You pay Capital Gains Tax through the Self Assessment system. Use the link below to find out more about reporting a gain or loss and getting a Self Assessment tax return.

If you've received a Self Assessment tax return, follow the guidance to decide if you need to fill in the capital gains pages as part of that return. The return tells you how to obtain these pages if you need them.

If you don't usually complete a tax return, but wish to report gains or losses, follow the link below to find out more.

Letting your home

When renting your home you need to know what you have to do by law and what your rights and responsibilities are as a landlord. You can get your home back when the tenancy ends, or if your tenant doesn't pay the rent. Leaving your home empty is risky.

Types of tenancy

You and your tenant should sign a tenancy agreement that sets out terms and conditions and your and the tenant's rights and responsibilities. This is a legal document and your estate agent will usually arrange it for you. If you're renting privately you should seek legal advice to help you write the agreement.

Your tenancy will be an 'assured shorthold' unless you and your tenant agree differently in writing. This means that you:

- have a right to get your home back after six months if you need to
- can charge the going rate for the area
- can get your home back earlier if your tenant owes you rent
- can evict tenants who are causing a nuisance to local people

You and the tenant agree on how long the tenancy lasts. You can agree a set period (known as a 'fixed term') or you can leave it open-ended.

Getting your property back

You can end the tenancy without giving a reason after six months or after the agreed fixed term. You need to give your tenant at least two months notice in writing.

You can end the tenancy at any time if you have good reasons for wanting the tenant to leave. This is called grounds for possession and the reasons are set out by law. These are:

- the tenant owes you at least two months or eight weeks rent
- anti social behaviour, for example keeping neighbours awake with music several times a week
- damage by the tenant

You still need to write to your tenant to give them notice. The amount of time you need to give them depends on which reason you are using to evict them.

When tenants won't leave

Most tenants do. You can't evict a tenant yourself, but you can go to the county court to get your property back. You can either make a claim through the court or use the online service.
Sometimes you can avoid the expense and hassle of going to court and get your home back quicker by using the:

- accelerated possession procedure
- possession claims online service

Accelerated possession procedure

If your tenancy was for a fixed term that is over, you can use the accelerated possession procedure to get your home back plus your costs for using this process. You can't claim for loss of rent or damages.

Possession claims online

You can use possession claims online (PCOL) to get your home back when the tenant hasn't paid the rent. You can claim for the rent you are owed, plus interest, and your fees to use this service. You can start the claim online and the system will give you a date for a court hearing.

Risks of leaving a property empty

You can lose over £5,000 a year by leaving your home empty through:

- rent loss
- Council Tax
- insurance
- disrepair
- keeping it secure

You also risk vandalism, squatting and complaints from neighbours.

If you need to repair a property before you can rent it, you can get help from your local council or housing association. They may give you a grant or loan, or arrange to rent and manage the property for you. Check if your local council has an empty property officer who can help you.

Next Steps

Once you have completed the following checklist you are ready to start looking for a property :

- I have deposit monies and emergency fund put aside
- I have discussed my mortgage options and am happy that I can afford any repayments
- I am comfortable with the tax position regarding a second property and my income

Whilst this guide aims to help provide information, it is not a substitute for any legal or professional advice with regard to taxation.

If you have any questions or queries, please do not hesitate to contact David Warboys of Welcome Mortgage Solutions Ltd on 0844 736 1920.

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