eBook 6

Planning an Exit from Buy to Let

the BUY to LET show

Property checklists.co.uk

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Underwritten by U K Insurance Limited

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Planning an Exit from Buy to Let

About this eBook

Thank you for downloading this eBook, which accompanies the sixth and final episode of the Buy to Let Show, the only programme which gives you all the information you need, whether you are thinking about buy to let for the first time, or are an existing investor and landlord.

The show was created with the support of Direct Line for Business and some of the top finance, legal, health and safety experts in the country as well as successful property investors and landlords.

Whether you are already investing or are thinking about buy to let, these eBooks and the show will make sure you are equipped with all the resources you need, as well as information about companies or organisations that can help you at every stage.

In the first five eBooks of this series, we considered whether buy-to-let is still a viable investment, looked at financing and insuring your property, helped you choose a property to rent out, explained how to let a property legally and safely and looked how to avoid the main problems that landlords may face.

In this book, we focus on planning an exit from buy to let, something that not everyone considers. Ideally before you buy any property, you should know how you are going to make your money and by when.

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EXPERT TIP

Buy to let is for a long time, it's not a short-term objective. You really need to consider, at the outset, what is your overall goal, what is your exit strategy, how much tax are you going to have to pay on exit. When it's such a long-term strategy, every single thing needs to be taken into consideration, and that is before you actually make that commitment.

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Meet the experts from this show

KATE FAULKNER, PROPERTYCHECKLISTS.CO.UK

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Kate Faulkner is widely regarded as one of the UK's leading independent property experts. She divides her time between consumer education and consulting with the renting and letting/property investment sector, from high street agents to government departments. She has written several property books, including the Which? Essential Property Guides, and is regularly featured on TV and radio as an expert property market commentator.

CHRISTINA DIMITROV, DIRECT LINE FOR BUSINESS

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Christina is the business manager at Direct Line for Business, where her focus is on improving the customer proposition. With a background in strategy consulting and e-commerce, she has spent five years working in consumer insurance across different products.

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Michael Wright is Director of RITA4Rent Limited, specialists in property tax. Michael and his team are dedicated to working with landlords to order their taxes in the most efficient manner. As well as being partners of Residential Landlords Association and the Property Tribes, Michael and RITA4Rent have also been featured in numerous media outlets such as the Guardian, the Times, the Evening Standard, the Daily Mail, Letting Agent Today, MoneyWise and Accountancy Age.

SHERRILL GEORGE, CHASE DE VERE

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Sherrill George is a senior manager based in Chase de Vere's London office. She joined the company in 2015 and is responsible for running a team of 14 independent financial advisers. Sherrill has 33 years' financial services experience including 23 years in the financial advice arena. She worked previously in branch management, financial adviser and area manager roles at Santander and has also managed a team of financial advisers at HSBC. Sherrill has achieved the CII Diploma in Financial Planning.

VANESSA WARWICK, PROPERTY TRIBES

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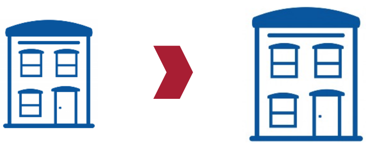
Vanessa Warwick is a private residential landlord, and co-founder of propertytribes.com, the UK's leading landlord and investor community. The former MTV presenter swapped rock 'n' roll for bricks 'n' mortar in 2004 when, along with her husband Nick, she began building a property portfolio of apartments, family homes and holiday lets. In 2009, Vanessa and Nick formed propertytribes.com as an information resource for landlords based on the mantra "none of us is as smart as all of us".

Making money from a buy to let

When you buy a property to let out there are different ways of making it work for you.

These breakdown into two main returns: capital growth, when the property's value increases and income from rent, as long as it exceeds your costs.

CAPITAL GROWTH



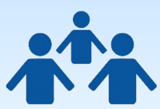
RENTAL INCOME

There are lots of ways of making property and buy to let to work for you financially so you get the money out from it that you want to:

- **Let an inherited home**
- **Buy at a discount – usually with cash – add value, then remortgage**
- **Turn one existing home into multiple properties, such as a house into flats or semis, or a commercial building into residential homes**
- **Buy land and build, securing capital growth and improving yields**
- **Create a multi-room let property such as a licensed House in Multiple Occupation***

And it's possible to do this with just one property or to build a portfolio.

*What is a House in Multiple Occupation (HMO)?



at least three people form more than one household (not related or in a relationship)

&

where tenants share facilities, such as bathroom and kitchen

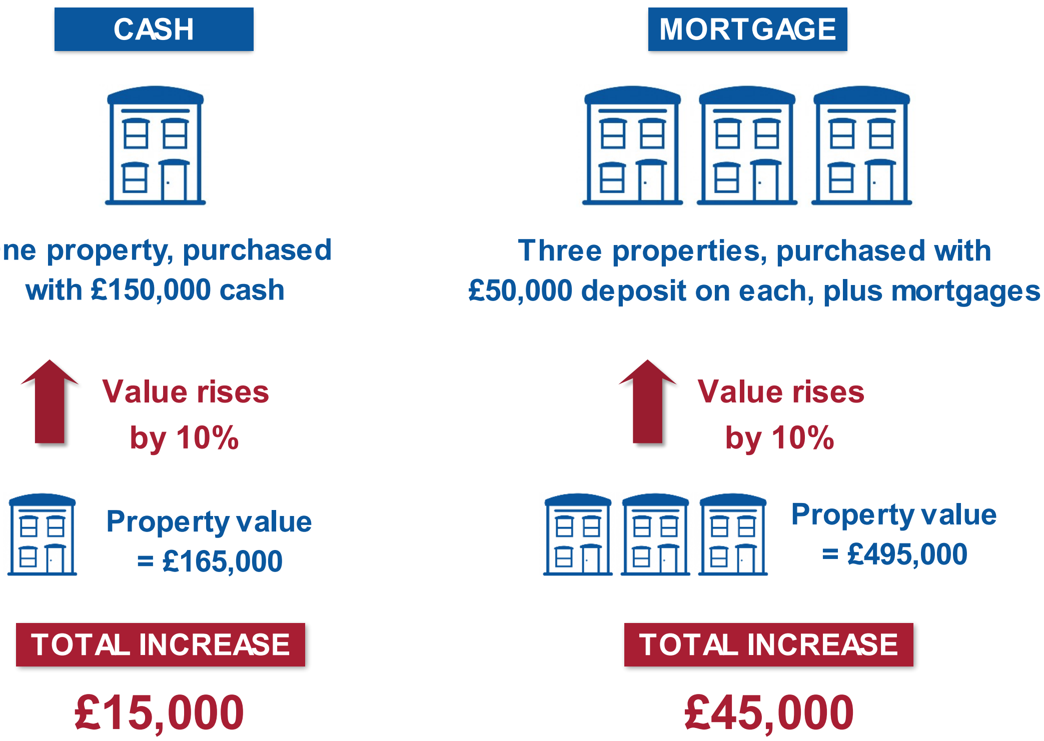
Will your property deliver?

Whether a buy to let is an 'added extra' investment or a new career or pension plan, you need to be very clear whether it will deliver the returns you need.

Property price growth is predicted to perform at a lower rate than it has in the past and taxation has been substantially increased.

This doesn't mean you can't be successful if entering buy to let now, but it does mean you have to do your research and not expect to buy just any property on any street and become a millionaire.

As there are other forms of investment which have a lower tax regime, it is also essential to weigh up returns from other investments as our assessment in our second eBook, **Financing and Insuring a Buy to Let,** showed that 100% cash investment in property may not perform as well as other investments.



EXPERT TIP

It is important that you define your objectives. And when you have met your objectives, think about the market conditions for exiting the market. For example, if your objective has been to maximise capital growth then move on to a bigger property or a new area, you might have to consider the best time to sell, or if there are new developments you can invest in. Maybe maximising capital growth isn't a key thing for you but other events, such as changes in taxation, might urge you to exit. There are many things to consider before you even make the investment.

CHRISTINA DIMITROV
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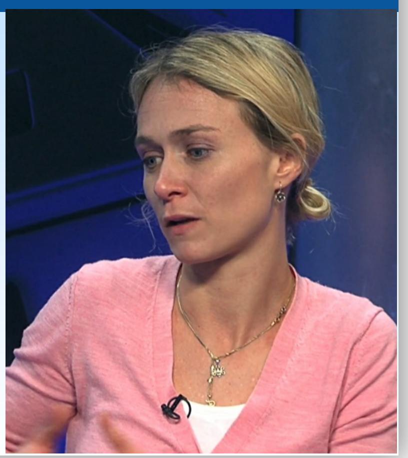


Checklist: Ways to make money from property

There are various ways you can make money from property, so it's important you sit down with the experts and work out which one is right for you. We have put together this checklist to help you.

- [ ] Work out how long you can tie up your money for, eg 10 years, 20 years.
- [ ] Research demand and supply for property now and in the future in your local or planned investment area
- [ ] Work out what time you have to invest in property.
- [ ] Compare what financial returns you can make versus other investments
- [ ] Seek independent financial advice, (link to Chase de Vere, via PC)
- [ ] Plan your exit strategy.
- [ ] Understand the tax implications or loss of benefits your property investment may have
- [ ] Compare five property investment options so you can assess the different returns
- [ ] Make sure you calculate the costs of the investment over the lifetime of ownership, for example have a schedule of works for the BTL to avoid surprises
- [ ] Try to secure the property for at least 10% below market value (ie not the market price).
- [ ] Make sure you have a RICS or RPSA independent survey – whatever the property's condition.
- [ ] Organise **specialist landlord insurance***
- [ ] Carefully plan any renovation, eg budget and timescales.
- [ ] Track your investment returns every 6-12 months.

LANDLORD INSURANCE

For more on landlord insurance, watch our second show and download the accompanying eBook, **Financing and Insuring a Buy to Let**

Call Propertychecklists.co.uk on 01652 641722

Visit the website at Propertychecklists.co.uk

Checklist: Buying a property below market value

By buying a property below market value, you increase your chances of experiencing capital growth. But beware of any property advertised as 'below market value' or 'discounted deal' – as these rarely turn out to be a genuine bargain. We've put together this checklist to help you find a property below market value.

- ☐ Decide what property type you are going to buy, eg two bed Victorian terrace.
- ☐ Note down the square foot/metre of the type of property you are looking to buy Tip: it will be on the property's EPC.
- ☐ Note down any special features of the property which may affect the value eg good condition, needs re-wiring, has a conservatory, corner plot.
- ☐ Research what price similar properties to the one you are planning to buy have sold for within the last 3-6 months Sites such as **mouseprice.com** or **nethouseprices.co.uk** will help.
- ☐ Find similar properties which have been sold, but haven't yet appeared on sold property price lists.
- ☐ Ask the agent who sold the property to tell you if the property sold for 'near the asking price' or below. Remember the agent can't legally tell you what it sold for, they can only give you an idea.
- ☐ Once you know what prices properties are sold for locally you can start looking for BMV deals.
- ☐ Always visit the property you are purchasing – never buy unseen, whatever reason you are given.

- [ ] Properties are sold below market value at:

  - Auctions (not always though!)
  - Through property sourcing companies

WEALTH WARNING! Make sure they are members of the Property Ombudsman Scheme

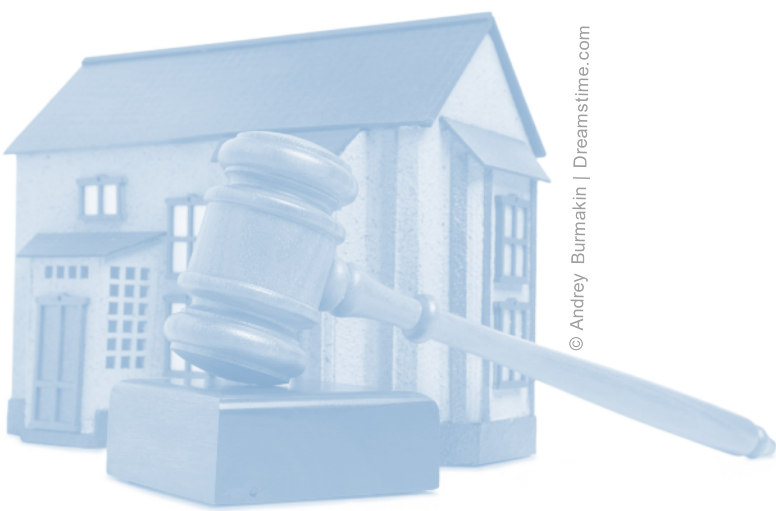
  - Direct from the buyer (eg repossessions)
  - Estate agents with sellers requiring a quick sale

- [ ] Have two or three properties to compare and make offers on.
- [ ] Make an offer approximately 10-20% below the REAL property's value (ie not off a marketing price).
- [ ] Make sure the offer is subject to a RICs surveyor's valuation who is qualified to do Residential Valuations.
- [ ] If the offer is accepted, send in the RICs valuer and if in poor condition ensure you have a building survey with a valuation so you understand the renovation costs you will need to do, especially if you plan to let the property
- [ ] Instruct a legal company and ensure they are aware you need to purchase the property quickly and are buying at a legitimate discount – especially if you are securing a mortgage to purchase the property.

Checklist: Buying at auction

Many property investors buy at auction, as there is a chance of securing a property below market value. There are several things to watch out for when purchasing this way, so EI Group has created this checklist to help you on your way.

- ☐ If you are buying a property at auction to make money from buy to let or renovation, create a business plan first.
- ☐ Sign up to the **EI Group** to find out about the auctions in your area.
- ☐ Visit one or two auctions to understand how they work. You can buy the auction catalogue beforehand, or just see the properties (or 'lots') that are available on the day. Mark down what the FINAL price is versus the guide price.
- ☐ Contact the auctioneer when you see properties you like to organise a visit.
- ☐ Choose a legal company that specialises in buying properties via auction (you'll need to work with a solicitor who ensures you complete within the time limit set at auction). For a specialist legal company contact us.
- ☐ Carry out viewings as soon as you can, but make sure you visit each property twice. Once by yourself, then again with a professional builder and/or an independent Royal Institute Chartered Surveyor (RICS) to secure a value.
- ☐ If you can, choose several properties to make offers on, just in case you don't win one of the properties on the day and there are others you are interested in.
- ☐ Check via professionals such as builders, electricians, gas engineers etc what work is required to bring the property up to scratch to live in, rent or sell on. Just because 'it needs a lot of work' doesn't mean you know exactly how much, so don't skimp on these experts!
- ☐ Ask your legal company to check the 'legal pack' that accompanies the property details. Make sure you give them plenty of time to advise you of any restrictions to works that can be done to the property, anything about letting the property etc.



- [ ] Prior to the auction make sure that you work out the maximum amount you can afford to pay for the property/what you think it is worth.

- [ ] Secure a mortgage if required PRIOR to auction. Make sure the mortgage company is aware and secure in writing that they understand they will be required to complete the funds within four weeks.

- [ ] Contact the auctioneer and ask how the deposit will work if required to pay on the day. Do you need a specialist cheque such as a bankers draft? Make sure funds are in place prior to auction day.

- [ ] Strategies to maximise profit:

    - Lots out of area (find lots been offered by auctioneers based a long way away, except London-based national auctioneers)
    - Lots out of 'type' or 'character' (look for lots that the auctioneer does not sell regularly, ie a commercial auction selling a flat)
    - Withdrawn lots (If the lot is withdrawn, find out why, it may come back on the market)
    - Unsold lots (If the lot does not sell the vendor may be desperate and accept offers below the reserve)
    - Lots with a high guide price (A high guide price deters interest so the vendor may get nervous and sell at a lower price).

Planning an exit strategy

Planning an exit strategy is vital, even before you start looking for a property to purchase, otherwise you risk handing most of your hard-earned investment returns over to the tax man.

It's important to understand your income goals and how to intend to achieve them, as well as planning carefully for the future. If you plan to leave your properties to your children, for instance, have you considered the implication of running a buy to let portfolio when others your age have long retired?

If you prefer to sell your properties, will you do this gradually or all in one go? Are you confident that your properties will sell, and do you have a Plan B in case they don't?

These are all questions your independent financial adviser can help you work through, as well as advising you on ways to mitigate tax, both for you and for your family, if you leave your properties to them.

Property investment brief

The following property investment brief has been developed with the help of financial advisers Chase de Vere. Completing it will help clarify your objectives and provide a useful starting point when you meet with financial advisers, buy to let agents and property tax consultants such as **Nicholsons** and **Rita 4 Rent**.

What are the most important objectives to you?

- ☐ Capital growth to build a lump sum for a specific reason, eg pay off mortgage, university fees
- ☐ Capital growth to build a lump sum to sell to fund your retirement
- ☐ Build up a portfolio income to enable early retirement
- ☐ Boost income while working
- ☐ Boost retirement income
- ☐ Buying property now to help children get on housing ladder later
- ☐ Own a student let for your children, then retain for income/capital growth later
- ☐ Leave property to your children/family

Explain your objectives in more detail. For example, if you want income from your property, how much? Or if you want capital growth, how much and by when? ....

....

Your financial situation

Give details of other property investments, including your own home ....

....

Give details of any other debts ....

....

....

Your current income, including bonuses ....

....

Your current outgoings ....

....

....

....

Future financial commitments, eg funding children through university ....

....

Can you cover your financial commitments if you or a family member becomes sick?	YES	NO
Have you made a will?	YES	NO
Will the will need updating if you invest in property?	YES	NO

About you

How old are you? ☐

Are you…

- ☐ Employed
- ☐ Self-employed
- ☐ Director
- ☐ Retired
- ☐ Contractor

Do you work…

- ☐ Full-time
- ☐ Part-time
- ☐ Permanent
- ☐ Contract
- ☐ Temporary

Your expectations

How much cash do you have to invest in property? ....

What price growth do you expect your property to deliver each year? ....

What net income (after costs and tax) do you expect from rental income each year? ....

EXPERT TIP

We see a lot of buy to let landlords once they've invested in lots of properties and we're trying to fix it and put plans in place to help them to manage that from a tax efficient perspective. If it was done at the outset and throughout, we have so many strategies we can put in place along the way and make it nice and smooth.

SHERRILL GEORGE
chasedevere.co.uk

WHO CAN HELP?

Independent financial advice

- Chase de Vere financial advisers
- Money Advice Service

Property tax experts

- Nicholsons chartered accountants and business advisers
- Rita 4 Rent rental income tax advisers

What to consider

As an investor, when you purchase buy to let and are working out how you are going to exit, there are three things to consider:

1. Your own personal investment objectives
2. The amount of money you can afford to invest long term
3. How adding property to your assets and earnings affects the tax you pay

EXPERT TIP

There are various things you may wish to consider… so it's worth exploring and sitting down with your accountant and tax adviser, and really building a good plan for the future, looking not just over the next year or two, not looking solely at wanting to save tax, but looking at your overall strategy and where you want to be.

MICHAEL WRIGHT
RITA4Rent.co.uk

Four ways you can exit from your buy to let

	✓ PROS	X CONS
1 Sell your properties		
If your properties have increased in value, you can sell them and keep the profits, after tax. You can re-invest the money in financial investments, drawing on the cash as and when you need	No longer reliant on tenants to pay their rent No longer have maintenance costs	Capital Gains Tax payable on profit, although relief is available
2 Keep the net rental income		
Instead of selling the properties you could just take the net rental income, especially if you have been able to pay off the mortgages over time	Retain the main asset, which could increase in value Retain rental income	Income at risk if tenant stops paying, although insurance is available Maintenance costs
3 Sell some, continue to let others		
Instead of selling the properties you could take the net rental income, especially if you have been able to pay off the mortgages over time	Lower CGT as can maximise the allowance by selling one property per year, for example Reduced maintenance costs Retain some income	Still required to maintain the properties you keep Reduced income
4 Leave the properties to your children/family		
You may not need the capital or income from the properties but would like to leave your portfolio to your family	Your family will benefit from long-term capital growth as well as additional income	Potential for Inheritance Tax charge at 40% on property's market value

These are just some of the ways in which you can exit from your investment, but there are more, although they are complex. To discover all your options and understand the pros, cons and timings of each of them, visit a tax adviser who will be able to tailor their advice to your particular circumstances.

Tax implications of property investment

All money earned from property – even if it was once your home – must be declared on your tax returns, so it is essential to understand the tax implications of investing in property, as well as any other factors which will impact your overall income. For example, if you have children and your earnings from property will take your income over £50,000 per annum, your Child Benefit payments may be affected.

These are the taxes you will be liable for:

WHEN BUYING

Stamp Duty Land Tax (SDLT)

You pay a 3% stamp duty surcharge on second homes, including buy to let properties, over £40,000. The 3% is charged on the full amount.

Property price	Rate payable on £0-£125,000		Rate payable on £125,001-£250,000		Rate payable on £250,001-£925,000		Rate payable on £925,001-£1.5m
Up to £125,000	3%	+	-	+	-	+	-
£125,001-£250,000	3%	+	5%	+	-	+	-
£250,001-£925,000	3%	+	5%	+	8%	+	-
£925,001-£1.5million	3%	+	5%	+	8%	+	13%

Examples of stamp duty on different buy to let properties

Example property price	SDLT payable on £0-£125,000			SDLT payable on £125,001-£250,000			SDLT payable on £250,001-£925,000			Total amount of SDLT payable
£40,000	-	-	+	-	-	+	-	-	=	£0
£100,000	3%	£3,000	+	-	£0	+	-	£0	=	£3,000
£150,000	3%	£3,750	+	5%	£1,250	+	-	£0	=	£5,000
£200,000	3%	£3,750	+	5%	£3,750	+	-	£0	=	£7,500
£250,000	3%	£3,750	+	5%	£6,250	+	-	£0	=	£10,000
£300,000	3%	£3,750	+	5%	£6,250	+	8%	£4,000	=	£14,000

To find out what stamp duty you will be required to pay on a particular property, visit the government's **stamp duty calculator.**

WHILE OWNING

Income Tax

The profits you make on your rental property (monthly rent minus any deductible expenses) are counted as income and are therefore liable for tax. You pay no tax on the first £11,500 of your earnings and between 20% and 45% on the remainder, depending on your overall income.

You are required to declare any income you make from property rental, no matter how small the amount. You must report it on a self assessment tax return form.

Allowable expenses which can be deducted include…

- Letting agent fees
- Maintenance costs
- Utility bills (during void periods or if bills are included in the rent)
- Council tax
- Insurance
- Mortgage interest (see **Relief on Finances**)
- Ground rent/service charges (leasehold properties)
- Advertising
- Business costs

WHEN YOU SELL

Capital Gains Tax (CGT)

When you sell an asset, such as a buy to let property, you are taxed on the ‘profit’, ie its increase in value.

You don’t usually pay CGT when you sell your main home because, as long as certain conditions are met, you automatically get Private Residence Relief (PRR).

The capital gains tax rate is currently 18% for basic rate tax payers, and 28% for higher rate tax payers.

The first £11,300 gain is not subject to tax (2017/18), as long as you haven’t used the allowance to mitigate tax on other gains.

Visit HMRC for the latest rates

You can deduct some of the costs associated with buying, selling and renovating, including the stamp duty paid and you can, in some cases, transfer the asset to a spouse or civil partner without incurring taxation. Gifting the property or selling it cheaply to your family/business partners or passing it into a business may mean Capital Gains Tax is still owed.

The tax you pay on the profit you make from your property depends on your current salary and wealth, so it is vital you seek individual tax advice when it comes to property, and do so prior to investing.

You do not have to pay full Capital Gains Tax on the sale of a property if…

- It was your primary residence
- It was your only home throughout the period you owned it
- It was not used as commercial premises
- You had no more than one lodger
- The area of the grounds doesn't exceed 5,000 square metres

Three mistake landlords make when trying to exit property

1. **Not planning early enough to take advantage of capital gains relief**
2. **Lack of understanding of how Capital Gains Tax works**
3. **Thinking they can 'sign over' the properties to their children and within seven years, if they don't pass away, it will be theirs, free of Inheritance Tax.**

‘Accidental’ landlords

If you are letting out your former home, when the time comes to sell the property, you will be able to claim Private Residence Relief (PRR) for the period you lived there, plus the last 18 months.

In addition, you may also be able to claim Letting Relief on the lowest of the following:

- **The amount of Private Residence Relief (PRR)**
- **£40,000**
- **The chargeable gain (your gain minus PRR) you made from letting your home**

Personal allowance

There is also your personal allowance of £11,300 (2017-18) to take into account, provided you have not made any other gains in the same tax year. This means that, in the example below, you would pay Capital Gains Tax on just £12,450 of your original gain of £150,000.

Other expenses

If you bought a property to live in and then let it out later, expenses incurred during purchase – such as stamp duty, solicitor’s fees etc – cannot be deducted from your capital gain. For major work, such as an extension, costs may only be deducted from your gain if this was carried out during the let, or for the purpose of letting the property.

Example property owned for 20 years, used as home for 10 years, let out for last 10

Purchase price:	**£50,000**
Sale price:	**£200,000**
Capital gain:	**£150,000**

PRR: 10 years + 18 months:	**57.5% of ownership**
PRR: 57.5% of gain (£100k):	**£86,250**
Chargeable gain:	**£63,750**
Minus Letting Relief:	**£40,000**
Minus Personal Allowance:	**£11,300** (If not already used. 2017-18 rates)
CGT payable on:	**£12,450**

AMOUNT PAYABLE

Lower rate tax payers (18%)	**£2,241**
Higher rate tax payers (28%)	**£3,486**

How Letting Relief is calculated:
Letting Relief is available on the lowest of the following: PRR (£86,250), chargeable gain (£63,750) or £40,000. Therefore, in this example, Letting Relief is available on £40,000, which is deducted from the £63,750 chargeable gain, reducing the CGT liability to £23,750.

For more information on Capital Gains Tax, visit the government website

Property investor, trader or developer?

Are you an investor, a trader or a developer? Your intentions are crucial when it comes to taxation, because they determine how you will be taxed, even if your plans turn out differently later on.

This is why it is so important to sit down with an independent financial adviser and property tax consultant, to discuss your plans before you invest. They will also be able to advise you about any changes along the way, such as if you had intended to sell a property quickly but decide to rent it out temporarily first.

PROPERTY INVESTOR	PROPERTY TRADER	PROPERTY DEVELOPER
Purchases property with the intention of letting it out	Purchases property with the intention of selling on for capital gain, with or without refurbishing	Builds property to sell quickly
STAMP DUTY PAYABLE? ✓	STAMP DUTY PAYABLE? ✓	STAMP DUTY PAYABLE? ✓
INCOME TAX PAYABLE? ✓	INCOME TAX PAYABLE? ✓ *If the development spreads over more than one tax year, the income may be spread over those years*	INCOME TAX PAYABLE? ✓ *If the development spreads over more than one tax year, the income may be spread over those years*
DEDUCTIBLE EXPENSES: Running costs, such as repairs, redecoration, insurance, accountancy, utility bills, letting agent fees, mortgage interest (see Relief on Finances)	DEDUCTIBLE EXPENSES: Refurbishment costs, mortgage/finance payments, utility bills	DEDUCTIBLE EXPENSES: Refurbishment costs, mortgage/finance payments, utility bills
CAPITAL GAINS TAX PAYABLE? ✓	CAPITAL GAINS TAX PAYABLE? ✗ *No, your capital gain is considered income*	CAPITAL GAINS TAX PAYABLE? ✗ *No, your capital gain is considered income*
DEDUCTIBLE EXPENSES: Stamp duty, estate agent and solicitor's fees, costs of major improvements such as an extension		

Relief on finances (Section 24)

The phasing in of Section 24 – which restricts the amount of income tax relief landlords can claim on residential property finance costs – began in April 2017.

Before this date, landlords could offset the whole of their mortgage interest payments – and interest on loans for furnishings – against their income, at their usual tax rate.

For example, if they received £800 rent a month, and their mortgage interest payments were £500, they would only pay tax on the remaining £300 (if other expenses are ignored).

This is gradually being reduced so that, by 2020, none of the finance costs will be directly deductible from rental profits. A new basic rate tax deduction can be claimed instead – see the table below. This will have a dramatic (negative) impact on higher rate taxpayers with loan interest, who will only be able to deduct a 20% tax credit (based on their finance costs) from rental profits.

How Section 24 is being phased in

Tax year	% of finance costs deducted from income
Before April 2017	100%
2017-2018	75%
2018-2019	50%
2019-2020	25%

From 2020 to 2021 all financing costs incurred by a landlord will be given as a basic rate tax reduction

Landlords can claim a basic tax reduction of 20% from the lowest of:

- The portion of finance costs not deducted from income
- That year's profits from the property business
- Their total income (excluding savings income and dividend income) that exceeds the personal allowance

For more information on tax relief on finances, visit the government website

Keeping records

To make sure you pay the tax due, you are required to keep records on the income and expenditure on your property portfolio for six years. This applies to all property types and HMRC can request to inspect these documents at any time.

Types of information you need to keep for as long as you own the property

- Contracts of sale/lease/exchange of the property
- Documentation relating to properties you did not purchase yourself (ie that were acquired via a gift or inheritance)
- Details of properties that have been given away or placed into a trust
- Copies of all valuations that have been used to calculate gains or losses
- Receipts, bills, invoices, evidence of payment, bank statements, cheque stubs – all financial records and documents that are applicable to taxation.

What works for one investor will not necessarily work for you, so don't rely on tax advice from the internet or other landlords. A specialist property-focused accountant or tax adviser will be able to show you ways to minimise the tax burden of your property portfolio.

Checklist: Buy to let tax

nicholsons
chartered accountants & business advisers

If you already have a portfolio or are considering investing in property for the first time, follow our buy to let tax checklist we have created with Nicholsons to help understand the tax implications of your existing or new property investment plans.

- ☐ Be clear about your buy to let objectives eg income or capital growth?
- ☐ Once you own rental property personally, you will need to submit a Tax Return annually, so each year you will need to collate details of:
  - ☐ Rental income
  - ☐ Allowable costs – ground rent, rates, insurance, repairs
  - ☐ Loan or mortgage interest
- ☐ Your tax accountant should be able to advise on any other claims you can make to keep your annual tax bill as low as possible.
- ☐ In the case of married couples/civil partners, tax can be mitigated by making sure a property is in the ownership of the lowest rate tax-payer. If jointly owned, legal and tax paperwork needs completing and submitting, but the relatively small cost can soon be covered by tax savings.
- ☐ Consider, or take advice on, the costs and benefits of owning property via a limited company.
- ☐ Keep the following details in a safe place for future reference:
  - ☐ Original price paid for your rental properties, including Stamp Duty Land Tax (SDLT)
  - ☐ Dates any of the properties were your main residence
  - ☐ Any costs you incurred purchasing / selling, such as legal fees and estate agents' fees
  - ☐ Any capital improvement expenses
  - ☐ Legal information about properties you own
  - ☐ Details of how the properties are owned, eg Joint Tenants or Tenants in Common

- [ ] To allow your tax accountant to provide you with best advice on your overall capital and income situation, you will (ideally) need to provide:
  - [ ] A spreadsheet showing original property costs, current values, and outstanding loans
  - [ ] Information about all other assets you have, including their values and original costs
  - [ ] Bank and building society balances (including ISAs)
  - [ ] Stocks and shares – costs and current values
  - [ ] Details of all your other annual taxable income
  - [ ] Life assurance policies
  - [ ] Pension information
  - [ ] Details of any wills in place, and any likely inheritances you may receive.

Call Nicholsons on 01522 815100

Visit the website at nicholsonsca.co.uk

EXPERT TIP

Typically, landlords should be looking at a 20 to 25-year horizon in buy to let, so it's a long timeframe and in you're in a commercial relationship with that property for a great many years. But you've got to understand how you're going to exit and that will largely be determined by your goals. There are many things to consider and it's very important to make it bespoke to you and your circumstances because it's not a case of 'one size

VANESSA WARWICK
propertytribes.com

Checklist: Investing via a limited company

Before you decide to invest via a limited company, make sure you have considered all the pros and cons.

PROS

- [ ] You can still (currently) deduct the finance costs from the rental income.
- [ ] It can be a good way to transfer property tax efficiently from an inheritance perspective.
- [ ] You pay a lower rate of tax, compared to higher and additional rates of income tax.
- [ ] All costs and income will need to be appropriately accounted for and abide by the Companies Act 2006, which you may not do if you own property individually.
- [ ] Profits can be retained in the company rather than drawn as income, thereby avoiding income tax charges.
- [ ] There are favourable rates on sale of investment property compared with a potential 28% when selling individually owned property.
- [ ] Indexation allowance on sale of investment property allows for the effects of inflation.

CONS

- [ ] If you have an existing portfolio, you can't just transfer it into a company as this may trigger both stamp duty and capital gain costs as you will have deemed to have 'sold' the properties to the company from your ownership. However, incorporation relief may be available to some landlords operating a company; it is essential you take expert advice. Also, if you are running a legitimate partnership, there may be grounds for stamp duty savings in the future.
- [ ] You need to consider your financing options if you hold property in a company, although improving, not all buy to let lenders lend on company held lets.
- [ ] It is not only buy to let landlords that have been hit with extra tax bills. Company directors that take dividends have lost much of their ability to pay them tax free.
- [ ] You can only take income from the buy to lets if you make the required profit.

Image: Petr Kratochvil

- ☐ Corporation tax is currently planned to reduce, but once your property is in a company you won't be able just to transfer back to your own ownership without considering your tax implications.
- ☐ You will have to produce accounts according to rules and regulations laid out by the government and this may mean incurring accounting bills of £1,000 a year or more.
- ☐ Bank accounts will be considered 'company accounts' so won't be free of charge.
- ☐ Exemptions and allowances of personally owned property would be lost, eg annual exemption, personal allowances.
- ☐ For those who own property personally, there can be benefits when selling the property if you have lived there. This is the opposite for company-owned property, and there can be serious consequences if you live in your company-owned property.

Passing on property to your family

Leaving your property portfolio to your family can land them with a big bill for Inheritance Tax, which is currently charged at 40% on any portion of an estate valued at over £325,000 (allowances can be combined for married couples and civil partners), so do talk to a property tax adviser before you make your will.

Failing to plan properly could result in your children not only having to deal with the loss of a parent, but facing a hefty Inheritance Tax bill, which could also undermine the investments you have worked hard to build up.

Things to consider

- An asset as big as a property cannot be transferred without some tax implications
- Your property portfolio needs to be considered in relation to all your other wealth, and cannot be viewed in isolation
- It's important to keep reviewing the situation as, with every government budget, there is the potential for changes which could affect how your family are taxed on their inheritance
- Look into trusts, especially if investing as a couple, as mirror wills could ultimately leave your children out of pocket if a surviving partner remarries
- Get independent financial advice from a specialist in property tax

THE 'SEVEN-YEAR' MYTH

Some people believe that if they 'gift' a property to their children and survive at least seven years afterwards, they will avoid care costs and/or Inheritance Tax. This is a myth and the situation is much more complex. Speak to an independent financial adviser about your particular situation.

EXPERT TIP

You may have children, you may want to pass these properties over to your children in the future; that can benefit them, because they may want to retain it so they can benefit from capital growth, rental income and expenditure if they then let the property... but of course, Inheritance Tax is a very, very detailed area, and you would really need to take good advice.

MICHAEL WRIGHT
RITA4Rent.co.uk

Ensure you are aware of the tax implications of leaving your property portfolio to your family. Before you visit a wealth manager, take a look at this checklist, compiled with Chase de Vere, to help you choose the best person to assist you, and so you know the sort of questions you need to ask.

- ☐ Make a list of all of your wealth, including property you own, financial investments, pensions, life cover, cash deposits and other such as Premium Bonds.
- ☐ If you have a will, secure a copy and check when it was last updated and if your circumstances have changed since then.
- ☐ Work out your financial objectives for the wealth manager; for example, do you want income in later life? Capital lump sums? What level of risk do you wish to take? Can you afford to lose access and gift assets?
- ☐ Source three potential wealth managers to give your financial objectives to.
- ☐ Compare the service each wealth manager offers, including personal visits and how transparent their investments are. For example, do they reassess your investment if the ‘investors’ financial objectives change? Do they constantly manage and monitor your investment portfolio and if so how do they do this?
- ☐ Ensure you have a wealth manager who provides holistic independent advice, understands all types of assets and how they behave on life and death.
- ☐ Ensure your chosen wealth manager completes a detailed financial audit of your affairs.
- ☐ Make sure your wealth manager is not simply going to carry out an instruction you give but advise on and discuss all issues including the difficult ones with you. Go through the wealth manager’s proposals in detail and make sure you are happy with their recommendations, discuss what changes you would like and items you are nervous about.
- ☐ Check the wealth manager will instruct a suitably qualified trust and estate planning solicitor to create and keep your will up to date as your wealth or circumstances change.
- ☐ If you have property assets, make sure your finances and wealth are in order so your children and family receive as much of your wealth as possible, more so understanding the way in which your property ownership is structured.

- [ ] If you own property, ensure you keep a check on the estimated value; this will help with assessing capital gains tax and inheritance tax. This will assist in creating better documents such as a will and ideas on how the assets should be managed.
- [ ] Understand who will receive your wealth and how much of your wealth you would like to go to them, at what age and their relationship to you.
- [ ] Decide if you want your assets to be protected against third party claims such as bankruptcy, divorce, local authority means testing when passing your wealth to a spouse, children or grandchildren.
- [ ] Understand what lifetime gifts you can make to reduce the value of your estate for inheritance tax purposes and the potential consequences of making gifts.

Call Sherrill George at Chase de Vere on 0345 300 6256

Visit the website at chasedevere.co.uk

10 steps to planning an exit

1. Always consider your exit strategy before investing
2. Define your objectives and goals
3. Consider the tax you will pay ongoing and on exit
4. Keep detailed and up-to-date records of all income/outgoings and retain all documentation relating to your properties
5. Plan ahead for 20-25 years
6. Speak to a property tax expert/independent financial adviser
7. Have a Plan B, in case you need to exit early or in a different way to planned
8. Make a will and keep it updated as legislation and your situation changes
9. Consider the tax your family will pay
10. Reassess your situation every 6-12 months to keep up with changing legislation and circumstances

EXPERT TIP

You've got to start with a very clear goal in mind because that will direct you to the strategy you're going to adopt. When you first start out in property, it can be very overwhelming to know which direction to take so it's important to understand that property is individual to you, your personal circumstances, your finances, your attitude to risk and how much time you have to devote to it. You need to be very clear on your end goal, and part of that is determining how you're going to exit.

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An expert team

It's very helpful to build up a contacts book of experts you can call on for advice. We suggest:

PROPERTY TAX EXPERTS

Nicholsons chartered accountants and business advisers	Call Nicholsons on 01522 815100
RITA 4 Rent rental income tax advisers	Call RITA 4 Rent on 0800 1 22 33 57

INDEPENDENT FINANCIAL ADVISERS

Chase de Vere financial advisers	Call Chase de Vere on 0345 300 6256
Money Advice Service	Call Money Advice Service on 0800 138 7777

SOLICITORS

Bonallack & Bishop	Call Bonallack & Bishop on 01722 422300

MORTGAGE ADVISERS

Which? Mortgage advisers	Call Which? Mortgage advisers on 0800 1977220
Mortgage Advice Bureau	Call Mortgage Advice Bureau on 0800 085 0118
Coreco	Call Coreco on 020 7220 5100
Brooklands Commercial Finance	Call Brooklands Commercial Finance on 034 5548 8002

Where next?

There are six eBooks in this series, which accompany the six episodes of the Buy to Let Show. They are:

1. **Is Buy to Let a Wise Investment?**
2. **Financing and Insuring a Buy to Let**
3. **How to Choose a Buy to Let**
4. **Letting a Property Legally and Safely**
5. **Dealing with Tenancy Problems**
6. **How to Plan an Exit from Buy to Let**

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