

# TACKLING THE THREE PILLARS: TAX, FINANCE AND PROPERTY INVESTMENT

A BLUEPRINT FOR INVESTING IN BTL



# INTRODUCTION:

## Why do I need to read this eBook?

With so much free information available on the internet these days, the prospect of investing in property or expanding your portfolio can be overwhelming. Paul Mahoney, founder and Managing Director of Nova Financial Group, finds people are often confused by the sheer volume of information, and the conflicting nature of much of it, and lapse into what he terms ‘paralysis by analysis’.

This eBook, Paul’s last in a series of five, explores three complex, but absolutely vital topics that prospective landlords need to understand: tax, finance and managing your asset. Here, Paul asserts once again that there is no ‘one size fits all’ property investment policy and that seeking professional advice is worth the expense as it will prove to be worthwhile in the longer term.

Each of these core elements of property investment can be problematical for landlords who do not have full access to accurate and up-to-date information, and who try to deal with these matters themselves without the experience or knowledge needed to understand the topics.

Paul’s mantra when it comes to property investment is:

*“Investing isn’t just about making money; you need to be able to sleep at night.”*

This fifth eBook outlines some of the confusion that can occur when landlords, or potential landlords, try to conform to often complicated and perplexing legislation when it can be difficult to understand what their obligations are. Paul briefly explains the background to some of the difficult issues and offers hope to those who feel that they don’t know which steps to take to tackle them.

Paul’s company, Nova Financial Group, has decades of expertise in understanding all aspects of property investment and guides you towards the best possible use of your investment.

As Paul points out, *“The blueprint is personal to the individual, and you need to make sure that you’re getting the right advice on how to structure your progress particular to your situation, your timeframes and your end goals.”*

## AWARDS

Nova Financial Group’s clients can make sensible decisions with their investments and have the confidence that they are receiving the best advice with regards to their goals and objectives. This comes from Nova Financial Group often being recognised independently as a well-respected buy-to-let investment and mortgage adviser, including their award, for example, for being ‘Best Property Investment Provider’ by LIS in December 2019. At whatever stage of their clients’ investment journey, Nova help them benefit from their advice and support.

Nova does not offer clients a ‘get rich quick’ scenario, but instead helps you to understand what amount of wealth is achievable, and how this can be done within a reasonable time span, regardless of how the economy is performing.



## ABOUT PAUL MAHONEY



Paul Mahoney is the founder and Managing Director of Nova Financial Group and has recently published a book which is now an International Amazon #1 best-seller. It's called "The Property Pension Plan, Financial Freedom Through Buy to Let Investment".

As a successful landlord himself, Paul's own portfolio reflects the advice Nova gives to clients, which is to invest in central locations in major cities, where there may be a shortage of land supply but strong growth in, for example, the population, the economy, and infrastructure spending. Paul recognises that in a flourishing economy, you can do well as a property investor, but that it's important to help you understand that choosing your investment properties carefully can buffer you against periods when market conditions are not flourishing.

## ABOUT NOVA FINANCIAL

Nova Financial Group is a multiple award-winning, privately-owned and independent buy-to-let property and finance advisory company.

The group assists clients in:



Nova's management team have successfully advised thousands of new and experienced UK and overseas property investors during their decades in the industry. They don't sell their own products and can therefore provide you with objective advice rather than sales-oriented guidance. Nova provides one-stop expertise, together with a range of educational services, under one roof from their centrally located offices in London, Birmingham and Manchester.

Nova also have a [YouTube channel](#) with lots of useful content for property investors. In addition to this, you can read [Nova's independent reviews on TrustPilot](#). Paul can be contacted directly on [pm@nova.financial](mailto:pm@nova.financial) or at head office on 0203 8000 600.

# TACKLING THE THREE PILLARS: TAX, FINANCE AND PROPERTY INVESTMENT

## A blueprint for investing in BTL



- 1 Tax:** The tax situation has changed considerably in the last five years, most particularly since the introduction of Section 24. Landlords, or prospective landlords, have to choose whether to proceed as a sole trader or buy through a limited company. This has serious implications for you and your strategy and it's essential to get professional advice about how Section 24 will affect you.
- 2 Finance:** Again, there have been many changes to the mortgage sector in recent times. A specialist mortgage broker who deals chiefly in Buy to Let mortgages can be a huge asset in finding the best product to suit you. There are over a thousand products available and an experienced broker will help you find the best fit for your own personal circumstances and property investment strategy.
- 3 Property Management:** it's vital to maintain your property and budget for this accordingly, making sure it's managed well. Although some like to do this themselves, most prefer a more 'hands off' approach. This is especially true if your property is not convenient for you to get to, in which case a reputable agent who is a member of a professional trade body will help you maintain your asset, and ensure that your property is safe and compliant.

# HOW TAX, FINANCE AND PROPERTY MANAGEMENT CAN AFFECT YOUR INVESTMENT



In a rapidly changing property market, it's possible to become perplexed and uncertain about how to invest for the first time, or to expand your portfolio in a successful way. While there is plenty of free information around on the internet, much of this can be contradictory, partly because it could be out of date and result, understandably, in you becoming unsure of which step to take next.

This is particularly true when considering the three core topics of ensuring that your taxes are appropriate to your situation, financing your investment, and managing your assets.

Paul points out that the advent of Section 24. For example, can be difficult to unravel and as a result, many people don't know whether it will affect them or not. Paul says, ***"That's probably resulted in a lot of people not really knowing whether they should continue in property investment, or whether they should incorporate via a company."***

It's absolutely vital for you to understand tax structuring a professional adviser will guide you and as a result to help you avoid substantial fines for making mistakes.

Where finance is concerned, many changes in recent years can make for a confusing and anxiety-inducing landscape. Choosing the right lender will give you access to over a thousand Buy to Let products and, whilst there is no 'one size fits all' solution to your financing requirements, a good broker will help you find the right one for you.

Paul explains, ***"By doing it yourself, you cut yourself off to over half the market"***. A common question is whether to choose an interest-only mortgage or a capital repayment mortgage and Paul explains why he advises a slightly against-the-tide interest-only mortgage in current conditions.

Good asset management is another key factor in successful property investment. The choice is whether to tackle this yourself, or to hand over maintenance and dealing with tenants to an agent. This decision shouldn't be taken purely on the cost of an agent. Dealing with this yourself is time-consuming, more so when your property is not close to where you live. In Paul's opinion the cost of arranging for an agent to let and manage your property is relatively acceptable, especially net of tax.

# WHAT TO DO TO TACKLE THE THREE PILLARS: TAX, FINANCE AND PROPERTY INVESTMENT

## Tax

1. There is no straightforward answer to whether to act as a sole trader, and buy property in your own name, or whether to incorporate and buy through a limited company. Section 24 has made tax matters more complex. As Paul says, *“I think anyone involved is absolutely mad not to seek advice on how Section 24 is going to affect them, or how they might be able to avoid its effects, because there are some ways around it.”* Hence professional advice is the only rational option.
2. When speaking to a professional advisor, think also about your eventual exit strategy. You may decide to choose an option that leaves a legacy for your children. For example, this will affect how you purchase and own the property and can influence the tax you – and they – pay if/when the property is sold.
3. It’s a useful to concept to consider your exit strategy first, and work backwards from that point to how best to achieve it currently. Paul cautions, however, that, *“Once you own a property in your own name, or through a limited company, it’s difficult and can be costly to change it.”* When it comes to tax, it is vital to ensure that you get the right advice, for your personal circumstances, at the start on how to proceed.

## Finance

1. The PRA (Prudential Regulation Authority, acting as a regulatory body) has helped to prevent landlords becoming over-leveraged since its introduction. However, there have been many changes to the mortgage sector in recent years. An independent, accredited broker will help you navigate your way through the thousand or more Buy to Let mortgage products currently available.
2. Choose your lender carefully. As Paul points out, *“There’s a very broad range of lenders out there. Some will lend to almost anyone, but at very high rates. High street lenders are quite stringent. And then there is everything in between, including specialist lenders for different things.”* You will save time and money by speaking to someone who has specialist knowledge and experience and is familiar with Buy to Let lenders and their products.
3. It is usually worth paying a consumer broker’s fees for their specialist Buy to Let advice to help you move forward in your project. Even if you have to pay, for example, £1,000 to obtain a £500,000 mortgage, to get the best possible service, this could save you tens of thousands of pounds in the long term.
4. Whilst standard Buy to Let mortgages are the norm, other financial products such as bridging loans, specialist mortgages and refurbishment mortgages are also available. If you’re not aware of these products, then it may be more difficult to find the best solution for your own situation. Paul recommends, *“You need to make sure you’re using a product that’s fit for purpose”.*
5. Finance makes a massive difference to property in the returns to the funds that you are applying. If you’re looking to build a portfolio in the long term, using the right product, the correct level of leverage and the appropriate interest rates at the beginning of your investment can make a huge difference in the mid- to long-term.

6. The general view tends to be that principal-repayment and interest mortgages are the best option because you are gradually paying off the mortgage. However, Paul's opinion is that by choosing a capital-repayment and interest mortgage, you're committing yourself to a higher repayment amount, which can be an issue if you hit financial difficulties, since you have a higher amount to maintain payments for. His advice is that, *"With most interest-only mortgages now, you can repay extra over and above the interest, if you want to. This is usually up to 10%, which means you can get the same benefit without the commitment."*
7. Using a professional broker to help you understand your investment and what your long-term goals are means you can use the right product to help you, whether two-year, five-year or even ten-year re-mortgaging. Paul warns, *"If you lock yourself in for five or ten years, you're going to pay higher fees to be able to get out of the deal, and get any equity or funds out of the property"*, he prefers two- or three-year product in general terms.
8. Now is a good time to invest since rates are very competitive. Leverage is what makes property so attractive from an investment perspective, whereas cash-only property doesn't perform nearly as well when prices are rising.
9. Consider your situation as regards what Paul describes as 'good debt': investment debt that helps better utilise your funds, and 'bad debt': personal debt that hurts your finances but helps your lifestyle. Getting rid of 'bad debt' first and then tackling investment debt is possible in a good financial situation and not under-utilising your resources.

## Property Management

1. Your mantra in this respect is to make sure your property is maintained and managed well. Within your strategy you should include budgeting for refurbishment every few years (5-7) over the 15-20 year timeframe for your portfolio.
2. While some people like to manage and maintain their property themselves, many others prefer to seek out the services of specialist agents, especially if their properties are a distance from where they live. In Paul's opinion, *"If you can get someone to let and manage a property for 8-10% of your rent, that's a relatively small fraction, especially when you consider your own time value, and the time that you're personally going to put into that."* After tax, this rate is discounted by 20% or 40% or more, so can work out quite good value.
3. Ensure you choose a reputable agent to work with. They may be voluntarily committed to professional standards by joining a trade body such as ARLA, SafeAgent or RICs. You need to be sure your agent will not only help you maintain your asset but make sure your property is safe and compliant with the latest laws, which currently are changing annually.
4. An accredited agent will also ensure that you, as a landlord, are fulfilling your obligations so if a tenant stops paying, there are no complications.
5. Paul advises that, *"There are economies of scale in property management and if you're dealing with a good agent that's managing fifty local properties, they are going to be able to do that better, or more cheaply, than you can if you're managing just one or two."*
6. Think carefully about whether you really want to manage and maintain your asset yourself. Make sure you understand how much work and time it takes. You are responsible for your tenants' safety and health in the property, which you are obliged to ensure is safe and compliant and that means knowing, abiding by and keeping up with over 400 rules and regulations to let a property - how are you going to achieve this?
7. If you live in an area that's a good place to invest, then by all means consider investing close to home. Remember though to still apply the same business criteria to select where you invest which we covered in eBook 4.

# PITFALLS TO WATCH OUT FOR:

## Tax

1. Don't look for an easy solution to working out your tax situation. The introduction of Section 24 complicated the issue and can cause confusion when it comes to tax structuring. Don't risk going it alone without seeking professional and qualified advice on how you will be affected, or possibly how to avoid being affected.
2. Failing to ask for professional advice is a false economy. You need to plan your exit strategy and work back from that stage in order to choose the correct investment route, and there are many different structures to choose from. Paul terms this as being "somewhat difficult to unscramble the egg", and once you own a property it's difficult and can be costly to change the tax structure you are on.



## Finance

1. While the PRA has helped prevent over-leveraging of some prospective landlords, don't risk seeking a mortgage product without a specialist broker. A top interest rate is not always the best indicator of the right product for your requirements.
2. It's usually a mistake to speak to your local, current, consumer bank about a mortgage. They tend to be very conservative and will either refuse you, or only give you a mortgage with a very high interest rate, which can discourage potential property investors.
3. Remember that over half of the thousand-plus Buy to Let products are only available through brokers. If you try to do things yourself, you deny yourself half the market.
4. Speak to a specialist who deals regularly in what you want to do, i.e. a broker who is familiar with Buy to Let lenders and the range of products that are available. Approaching a broker who deals exclusively with people buying their own homes will not have knowledge or experience of more specialised products outside residential mortgages.
5. Opting for the cheapest broker often means a standardised service, and possibly dealing with a broker who is inexperienced and may be chasing higher commissions, which vary between lenders. Paying the best, most experienced broker a relatively small percentage for good advice can save thousands of pounds in the long run.
6. Beware of standard Buy to Let mortgages. There are many other products available that may be a much better fit for your requirements. It is not possible for potential landlords to access the full information without the guidance of professional specialist advisors.
7. It may be a mistake to automatically choose the most popular option of a capital-repayment and interest mortgage. Paul points out that, "With most interest-only mortgages now, you can repay the extra over and above the interest if you want to... you can get the same benefit without the commitment."



8. If you don't work with a broker, you may not fully understand which option is right for you. Many people aim to re-mortgage every two or three years because locking themselves into a longer period may bring very high fees in order to exit and extract equity or funds from their property.
9. Don't hesitate while interest rates are competitive as you may lose the opportunity to benefit from low financing costs before long.
10. Avoid cash-only property if you can, as this under-utilises your resources.

## Property Management



1. Once you have purchased a property, never sit back and think that you have done the hard work. This is the longest and most demanding stage of the 'landlord lifecycle', and your strategy must include funding for maintenance and refurbishment every few years. Letting your asset deteriorate could translate into lower rent and more frequent voids. Plan to maintain it properly.
2. Never underestimate the time, energy and cost that go into managing and maintaining your property yourself. If the property is close by and convenient to reach, then this is less onerous than if you have bought a property a distance away. However, you may consider the cost of tasking a trustworthy and reputable agent to do this for you to be worthwhile, depending on how you value your time.
3. Don't choose the cheapest agent you can find. It's absolutely vital to work with an agent who is registered to a trade body and who will ensure that your asset is correctly maintained, safe and compliant. Failure to do this can result in huge fines to the landlord.
4. It's a mistake to choose to invest close to home exclusively so that you can self-manage. It's really important not to use emotional criteria to choose your area of investment. A far-away area to buy your property may, in spite of paying an agent to manage it, yield far higher returns than somewhere that's easy for you to reach.
5. As with all aspects of property investment, do your research on who is best equipped to manage your assets. Experience suggests that not doing this can lead to bad experiences working with agents.

# Watch, listen, read Paul's advice: or meet Nova Financial advice in person!

## Watch Paul's advice on video.

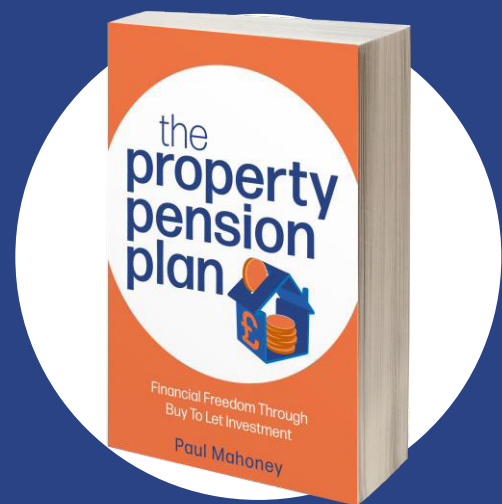
The Buy-To-Let Blueprint is powered by Nova Financial and is co-presented by Paul Mahoney MD and also founder of Nova. Paul shares his thoughts on property investment in general and his approach as a landlord and investor to building a portfolio.

Nova also have a [YouTube channel](#) with lots of useful content for property investors.

## Read Paul Mahoney's best-selling book!

Paul recently published a book which is now an International Amazon #1 best-seller. It's called "The Property Pension Plan: Financial Freedom Through Buy to Let Investment".

You can obtain a free copy of Paul's book, paying postage only, by clicking [here](#) and completing the form; or from Amazon by clicking [here](#).



## Listen to Paul's the property pension plan book on Audible.

You can also listen to Paul's audiobook by clicking on the Audible link [here](#).

## Meet Paul and his team in person

[Nova Financial Group](#) are financial advisors specialising in buy-to-let property investment. Nova helps clients to have full control and flexibility of property and investments. They approach property investment by assessing risk versus return, and focusing on fulfilling their clients' investment criteria. They use stringent selection criteria and select only those opportunities most suitable for in-depth analysis and potential recommendation.

You can check out Nova's [independent reviews on TrustPilot](#). Paul can be contacted directly on [paul@nova.financial](mailto:paul@nova.financial), or call Nova Financial Group's office on 0203 8000 600.