



Choosing & financing your buy-to-let property

This guide will provide you with an introduction to the buy-to-let process, including what your responsibilities are as a landlord and what to consider in terms of financial planning. As the UK's leading conveyancer, we take care of the legal side of moving; so whether you are buying a flat, house or a portfolio of properties to rent, we are here to help.

Picking the right property

When choosing a buy-to-let property, it is worth remembering that this is essentially a business transaction, and the kind of property you buy is not necessarily the kind of property you'd like to live in yourself. Ultimately you need to ensure a good return on your investment, so remember to pick a property that will be popular with renters.

Tips to remember

- Talk to your local estate agent as they will know which areas are popular with renters and what rent you can expect to charge.
- Decide on the type of renter you would like to attract e.g. young professionals, students, families etc, and then work out what amenities they will need and the type of property that will suit them. This will help to narrow your search area.
- Decide on whether you want to manage the property yourself or would like to use a lettings agency to look after your property. Remember to calculate this cost into your overall outgoings when deciding if you can afford the property.
- Once you have found the property you would like to purchase, it's time to do the maths. Make sure the rent you generate is at least enough to cover your mortgage, as associated management bills and leaves some spare to pay for the maintenance of the property. In most cases, lenders will stipulate how much you need to generate in rent, in order to qualify for a buy-to-let mortgage.

Purchasing the property

If you are purchasing the property with a mortgage then you will need to secure a special buy-to-let mortgage from your lender. Alternatively, if you decide to rent out your current home, it is advisable to notify your mortgage provider as many will change the terms and conditions of your mortgage for a small admin fee. However, if you are a cash purchaser, then you are free from these conditions.

As a landlord you must comply with a number of statutory requirements to ensure the safety of your tenants while they occupy the property. A full list of these responsibilities can be found at: www.gov.uk/private-renting/your-landlords-safety-responsibilities

When letting out your property, it is advisable to have a tenancy agreement drawn up. Once signed, this is a legally binding document that outlines what is expected of each party involved in the rental process; including how much the deposit will be, how much rent is to be charged and what condition the property is expected to be returned in. Talk to your letting agent or a solicitor to help you prepare these documents.

Securing a mortgage for your buy-to-let property

Buy-to-let mortgages differ from standard residential mortgages, as the lender will work out how much you can borrow based on the rental income of the property. As a general rule, lenders will be looking for the rental income to be at least 125% of the monthly mortgage payment e.g. if your mortgage is £800 a month, then your rent will need to be at least £1,000 a month.

Most lenders will also require a higher deposit compared to residential mortgages (somewhere around 25%). They are also likely to take into account the amount you earn per year.

A mortgage broker will be able to help you find the best deal that fits with your circumstances.

Other costs associated with buying a property:

When calculating the costs for a buy-to-let property, there are a number of factors to consider. These include:

- **Mortgage fees** - most lenders will typically charge you a mortgage fee of circa £1,000 for the product you take out. This will either need to be paid up-front or in some cases it will be added to your mortgage.
- **Survey fees** - you can choose from a range of surveys for the property you are buying; from a basic mortgage valuation through to a detailed structural survey. Each survey will provide you with different levels of information on the property. As a guide, a mortgage valuation will typically cost around £400.
- **Buildings insurance** - at the point of exchange your mortgage lender will require you to have buildings insurance in place for your new property.
- **Management fees** - if you do decide to use a lettings agent to look after your property then remember you will need to pay them a fee. This is usually a percentage of the rent charged but it is worth negotiating.
- **Repairs** - as the landlord you are responsible for repairing anything that breaks in the property; for example the boiler or washing machine.
- **Covering the mortgage and any bills when the property is empty** - there may be times when you do not have a tenant for the property, in these instances you will still need to pay your mortgage, gas, electricity, water and council tax bills. You will need to ensure that you have some money available for this situation.

- **Stamp Duty** - Stamp Duty will need to be paid when purchasing a property. The amount will vary depending on the value of the property and how many properties you will own at the end of the transaction.

Stamp Duty charges on the first property you buy:

| | |
|-------------------------|-----|
| Under £125,000 | 0% |
| £125,001 - £250,000 | 2% |
| £250,001 - £925,000 | 5% |
| £925,001 - £1.5 million | 10% |
| Over £1.5 million | 12% |

For further details visit www.hmrc.gov.uk/sdlt

If the property you are purchasing is not the only property you, or your purchasing partner own, a 3% rate of Stamp Duty will be charged in addition to the standard rate.

Examples of the Stamp Duty payable:

| House price | Stamp Duty (First Property) | Stamp Duty (Additional Property) |
|-------------|-----------------------------|----------------------------------|
| £150,000 | £500 | £5,000 |
| £200,000 | £1,500 | £7,500 |
| £250,000 | £2,500 | £10,000 |
| £300,000 | £5,000 | £14,000 |
| £500,000 | £15,000 | £30,000 |



Tax on your buy-to-let property

As the property you have bought is an investment and not your main home, you may be liable to pay tax on it.

Income Tax

The income you receive as rent is taxable and you will need to declare this to HMRC through your self-assessment tax return. You can offset a number of costs against the rent before tax is charged including:

- Interest on your mortgage payments (not the capital repayments).
- Maintenance costs for repairs and upkeep of the property.
- Letting agency fees.
- Buildings and contents insurance premiums.
- Council tax and some utility bills if it is the landlord, rather than the tenant, who pays these.

To help you understand the amount of tax you must pay, we'd advise you to talk to an accountant, especially as HM Revenue and Customs require you to keep a record of income and expenses for at least 6 years.

Inheritance Tax

In the event of your death, your buy-to-let property will form part of your estate. If your estate exceeds £325,000 for an individual or £650,000 for a couple, inheritance tax is charged at 40%, for everything above this amount.

Premier Property Lawyers, is the UK's leading conveyancer and we have extensive experience and a wealth of knowledge gained from handling buy-to-let cases, from professional landlords through to first time buy-to-let clients; and we have developed and introduced a range of services to make the buy-to-let conveyancing process seamless and stress-free.

Dedicated Conveyancer - a consistent point of contact to help guide you through each stage of the conveyancing process.

Online Case Management - our revolutionary eWay service allows you to track your case 24/7 via a PC, smartphone or tablet. You can review all documentation and complete the majority of paperwork via a laptop or PC.

Regular Contact - via email, SMS, phone or letter, dependent on your preference.

Capital Gains Tax

If you sell a buy-to-let property for more than you bought it for, you will be liable to pay tax on the capital gain, there is an annual tax-free capital gains allowance which is currently £11,100 for 2015/16 – which means that if the gain is this amount or less, then you may not be liable for capital gains tax. If the gain is more, then you will need to pay tax on it.

Like income tax, there are a number of expenses you can offset against the capital gain to reduce the overall amount. These include:

- A loss made on the sale of a buy-to-let property in the previous year.
- Conveyancer's fees.
- Estate agent's fees.
- Marketing costs for the property.
- Stamp duty.

The above information as provided by Premier Property Lawyers does not constitute advice and is merely intended as a guide. For up-to-date tax advice please talk to your accountant or visit www.hmrc.gov.uk

Extended Opening Hours - we're open in the evening and at weekends; so you can contact us at a time that suits you. In addition to providing an excellent service, we also offer you additional reassurance in the form of:

Fixed Fees - our fixed fee policy means that you only pay the amount that you see on your quote.

We offer a No Move, No Fee Guarantee - so if your sale falls through, no legal fee will be charged; although costs will be incurred in respect of any disbursements paid, e.g. searches, obtaining landlord information.

Search Guarantee - in the unlikely event that a purchase does not proceed to exchange of contracts, the cost of the next set of searches will be supplied FREE of charge*.

*Terms and conditions apply.

Managing & maintaining your buy-to-let property

If you chose to use a lettings agency to manage and maintain your property, then you can expect them to take responsibility for:

- Marketing the property via their website and associated channels.
- Finding suitable tenants.
- Carrying out reference checks on the tenant.
- Preparing tenancy agreements for the tenant and landlord to sign.
- Collecting rent from the tenant and paying the landlord their share.
- Organising the inventory, check-in and check-out at the beginning and end of the tenancy.
- Acting as liaison between the landlord and tenant, helping to resolve any problems.
- Organising for any maintenance work to be carried out on the property during the tenancy.

It is possible to negotiate with the lettings agency so they are responsible for some of the more complex tenancy issues e.g. finding the right tenant, carrying out reference checks and preparing the tenancy agreement, whilst leaving the day-to-day property management to you.

Alternatively, you can decide not to use a lettings agency at all, making you solely responsible for all tenancy matters.

To help with your peace of mind as a landlord, you can also take out landlord insurance – this will help to cover you in the event of any damages to your property and may also cover any unpaid rent.

We would recommend that you choose a lettings agency that is a member of The Association of Residential Letting Agents (ARLA).

For further details visit www.arla.co.uk



Landlord Obligations

As a landlord you are required to fulfil a number of obligations. These include:

- **Holding a gas safety certificate:** you must ensure that the gas appliances in the property are safe and are inspected at least once a year by a Gas Safe Registry registered tradesperson. You cannot let out your property without a gas safety certificate. The gas safety certificate must be kept by a landlord for a minimum of two years from the date of the inspection.
- **Electrical safety check:** In order to demonstrate 'due diligence' in relation to ensuring your property is safe, it is recommended that you conduct an electrical safety check. This is not a legal requirement in the same way as a gas safety certificate, but under the Consumer Protection Act 1987 (which encompasses the Electrical Equipment (Safety) Regulations 1994 and Plugs and Sockets etc, (Safety) Regulations 1994) there is an obligation for the landlord to ensure that all electrical equipment is safe.
- **Furniture:** Since the 1st January 1997, all furniture in tenanted residential property must comply with the 1993 amendments to the Furniture and Furnishings (Fire) (Safety) Regulations 1988.
- **Smoke alarms:** All properties built after June 1992 are required by the Buildings Regulations to have mains operated inter-connected smoke alarms fitted on every level of the property. Older properties do not have to comply but landlords are well advised to have battery operated alarms fitted.
- **Energy Performance Certificate (EPC):** an EPC is required in order to market a property for rent; otherwise the landlord risks a fine of £200 from the local Trading Standards officer.
- **House in Multiple Occupation (HMO) licence:** if you are letting out a property to three or more tenants, who form two or more households and who share a kitchen, bathroom or toilet then you may be required to obtain a HMO licence. For a full list of conditions and types of properties that qualify please see: www.gov.uk/house-in-multiple-occupation-licence or check with your local council.
- **Deposits:** Nearly all private landlords and letting agents taking deposits for assured shorthold tenancies in England and Wales are required to safeguard them with a government-authorized tenancy deposit protection scheme. The landlord can choose from a Custodial or Insured scheme, both are offered by the Deposit Protection Service, which is authorised by the Department for Communities and Local Government.

For further details see www.depositprotection.com

Being a landlord is a serious business and failure to ensure your property is safe for your tenants could result in a fine, invalidation of property insurance, a possible manslaughter charge in the event of a death, six month imprisonment or a tenant may sue you for civil damages.

Useful contacts:

ARLA: www.arla.co.uk

Gas Safe Register: www.gassaferegister.co.uk

GOV.UK: www.gov.uk

HMRC: www.hmrc.gov.uk

Premier Property Lawyers: www.premierpropertylawyers.com

NICEIC: www.niceic.com

The Deposit Protection Service: www.depositprotection.com