

Buy-to-let Guide



What is buy-to-let?

Buy-to-let refers to the purchase of a property specifically with the intention of renting it out.

This guide will provide an introduction to the buy-to-let process, including what the responsibilities are as a landlord and what to consider in terms of financial planning.

As the UK's leading provider of mover conveyancing services, we take care of the legal side of moving; so whether you are buying a flat, house or a portfolio of properties to rent out, we are here to help.



Choosing & financing a buy-to-let property

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 that a landlord buys is not necessarily the kind of property that they would like to live in. Ultimately a landlord needs to ensure a good return on their investment, so will need to remember to pick a property that will be popular with renters.

Things to consider when choosing a property:

- Talking to a local estate agent helps as they will know which areas are popular with renters and what rent can potentially be charged.
- Choosing the property and location based on the type of tenant can be a good idea and helps to narrow the search area down. For example, young professionals will be looking for a property close to good transport links, shops, bars and restaurants; while a young family will be looking for a location near to a good school and a property with a garden.
- Finally it's time to do the maths. The rent collected needs to be enough to cover the mortgage, associated management bills (including the amount charged by a lettings agency if they are instructed to manage the property) and leave some spare to pay for the maintenance of the property. In most cases, lenders will stipulate how much needs to be generated in rent, in order to qualify for a buy-to-let mortgage.

Purchasing the property

If the property is being purchased with a mortgage then a special buy-to-let mortgage will need to be secured from a lender. Alternatively, if a client decides to rent out their current home, it is advisable to notify the current mortgage provider, as many lenders will change the terms and conditions of their mortgage for a small admin fee. If the client is a cash purchaser, then these conditions do not apply.

A landlord must comply with a number of statutory requirements to ensure the safety of their tenants whilst 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 a 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 will be charged and what condition the property is expected to be returned in. Talking to a letting agent or a solicitor is advisable when preparing these documents.

Securing a mortgage for a buy-to-let property

Buy-to-let mortgages differ from standard residential mortgages, as the lender will work out how much can be borrowed 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 a mortgage is £800 a month, then the 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 the landlord earns per year.

A mortgage broker will be able to help find the best deal that fits with each individual's circumstances.

Other costs to consider

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 a mortgage fee of circa £1,000 for the product taken out. This will either need to be paid upfront or in some cases it will be added to the mortgage.
- **Survey fees** - a range of surveys are available for the property being purchased; from a basic mortgage valuation through to a detailed structural survey. Each survey will provide 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 a mortgage lender will require buildings insurance to be in place for the new property.
- **Management fees** - if a lettings agent is required to look after the property then they will need to be paid a fee. This is usually a percentage of the rent charged, but it is worth negotiating.

- **Repairs** - the landlord is responsible for repairing any item listed in the rental agreement; for example the boiler or cooker.
- **Covering the mortgage and any bills when the property is empty** - there may be times when the property is vacant with no tenant. In these instances the mortgage, gas, electricity, water and council tax bills still need to be paid. The landlord will need to make sure that they have some money available for this situation.

A Revolutionary Conveyancing Service

My Home Move, through its wholly owned subsidiary, **Premier Property Lawyers (PPL)**, is the leading provider of mover conveyancing services in the UK – including buy-to-let purchase and remortgage conveyancing.

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 as seamless and stress-free as possible:

- Dedicated Conveyancer
- Online Case Management
- Regular Contact
- Extended Opening Hours
- Buildings insurance - at the point

In addition to providing excellent service, we also offer clients additional reassurance in the form of:

- Fixed Fees
- Search Guarantee

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 - £1,500,000	10%
Over £1,500,000	12%

For further details visit: www.hmrc.gov.uk/sdlit

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 buy-to-let properties

As a buy-to-let property is an investment, the landlord may be liable to pay tax on it.

Income Tax

The income received as rent is taxable and will need to be declared to HM Revenue and Customs (HMRC) through a self-assessment tax return. A number of costs can be offset against the rent before tax is charged including:

- Interest on the 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 understand the amount of tax that must be paid, it is advisable to talk to an accountant, especially as HMRC require a record of income and expenses for at least 6 years.

Inheritance Tax

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

Capital Gains Tax

If a landlord sells a buy-to-let property for more than they bought it for, they will be liable to pay tax on the capital gain; if they sell it for less, then there is no capital gains tax due.

There is an annual tax-free capital gains allowance which is currently £10,900 (2013/14) - which means that if the total gain from all investments is this amount or less, then it is not liable for capital gains tax. If the gain is more, then tax will need to be paid on it.

Like income tax, there are a number of expenses that can be 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 My Home Move and Premier Property Lawyers does not constitute advice and is merely intended as a guide.

For up-to-date tax advice please talk to a registered accountant or visit www.hmrc.gov.uk.



Managing & maintaining a buy-to-let property

If a lettings agency is chosen to manage and maintain the property, then they can be expected 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 for 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.
- We have strict criteria to make sure that the lawyers on our panel provide clients with good service.
- 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, leaving the day-to-day property management to the landlord.

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

Landlord insurance is a specialist insurance that can also be taken out - this will help to cover the landlord in the event of any damages to the property and may also cover any unpaid rent.

If a decision is made to engage a lettings agency, we would recommend choosing a member of The Association of Residential Letting Agents (ARLA). For further details visit: www.arla.co.uk.

Landlord obligations

A landlord is required to fulfil a number of obligations. These include:

- Holding a gas safety certificate:** The landlord 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. A property cannot be rented out 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 a property is safe, it is recommended that an electrical safety check is conducted. 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 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 letting out a property to three or more tenants, who form two or more households and who share a kitchen, bathroom or toilet then a HMO license is required. For a full list of conditions and types of properties that qualify please see www.gov.uk/house-in-multiple-occupation-licence.
- 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 authorised 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 please visit: www.depositprotection.com.

Failure to ensure a property is safe for 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 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
- myhomemove: www.myhomemove.com/buy-to-let
- NICEIC: www.niceic.com
- The Deposit Protection Service: www.depositprotection.com



Industry recognition for excellent service



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My Home Move, through its wholly-owned subsidiary, Premier Property Lawyers, is the leading provider of mover conveyancing services in the UK.