A Guide to Buy to Let Mortgages

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Introduction

When individuals accumulate savings there is often a decision to be made about how that money is invested. At Savings Champion we regularly encounter people that are at the start of that decision making journey, which might include the purchase of a Buy to Let (BTL) property.

In order to help those that are considering property purchase Savings Champion has partnered with award winning independent mortgage broker, London & Country Mortgages, to provide the following guide that looks to explain BTL mortgages in a simple way.

To find out more about which mortgage is right for you, call **London & Country** on **0800 073 1937** or **click here**.

About London & Country

London & Country are the UK's largest fee-free mortgage broker and their aim is to provide mortgage advice that is as simple and cost effective as possible. They have won multiple awards for the quality of their advice and service.

- Fee FREE
- Award winning advice
- Independent
- They do the hard work for you

What is a buy to let mortgage?

A BTL mortgage is a loan secured against a property that has been purchased as an investment where the investor becomes a landlord and rents out the property.

Do I need a buy to let mortgage?

Unless you are able to purchase the property outright, with no borrowing, then a BTL mortgage will be required.

A BTL mortgage is a special type of mortgage based on the fact that you will not be the permanent resident. Unlike a residential mortgage, where how much you can borrow is based on your own income (among other things), a BTL mortgage is assessed based on rental income.

The difference between a standard mortgage and a BTL mortgage?

As highlighted above the main difference between the two types of mortgage is the projected rental income (i.e. can the rent support the mortgage repayments).

In addition many BTL lenders will also require the borrower to have a minimum salary, typically £20,000 or £25,000.

Other differences include;

- A residential mortgage does not permit the owner to rent the property to tenants.
- The interest rates on BTL mortgages tend to be higher than residential mortgage rates.
- Typically the minimum deposit required for a BTL mortgage is higher than it is for a normal residential loan. A minimum of a 20% deposit is usually required.
- The arrangement fees on a BTL mortgage will often be greater than a residential mortgage and are often calculated as a percentage of the amount borrowed, rather than a flat fee.
- Conveyancing costs may also be higher for a rental property.

Tax relating to BTL properties

Neither Savings Champion nor London & Country Mortgages can offer advice on tax however it is recommended that anyone considering BTL should consult a tax adviser before committing to a property investment.

Capital Gains Tax

An individual may be subject to Capital Gains Tax on a BTL property when they sell the property if they sell the property for more than the amount they bought it for - subject to individual tax allowances. In 2015/16, this allowance is £11,100 per individual.

It is possible that expenses incurred in the disposal of a property may be used to reduce the amount of the liability. These expenses might include:

- Legal fees

- Estate agent fees
- Costs of advertising the property for sale
- Stamp duty

In addition there are certain tax reliefs available if the property was previously the owners principal private residence.

Stamp Duty

Stamp Duty Land Tax (SDLT) applies to BTL property purchases, in England, Wales and Northern Ireland, subject to the following scale;

The current SDLT threshold is £125,000 for residential properties and £150,000 for non-residential land and properties.

The current rates for residential properties are as follows;

Property or lease premium or transfer value	SDLT rate
Up to £125,000	Zero
The next £125,000 (the portion from £125,001 to £250,000)	2%
The next £675,000 (the portion from £250,001 to £925,000)	5%
The next £575,000 (the portion from £925,001 to £1.5 million)	10%
The remaining amount (the portion above £1.5 million)	12%

Example

If you buy a house for £275,000, the SDLT you owe is calculated as follows:

- 0% on the first £125,000 = £0
- 2% on the next £125,000 = £2,500
- 5% on the final £25,000 = £1,250
- Total SDLT = £3,750

Calculate SDLT

To calculate Stamp Duty please click on the following link to a simple calculator produced by London & Country Mortgages. (There is also an option for buyers of property in Scotland).

Click here for the **SDLT Calculator**

Simply enter your property value and the calculator will do the rest.

Inheritance Tax

A BTL property that you own will form part of your estate for Inheritance Tax purposes.

Therefore if a BTL property is purchased in an individual's sole name then there would be an Inheritance Tax liability if your property value (or combined value of your estate) exceeds £325,000.

Inheritance tax planning is a complex subject and anyone who is seeking additional information can download the following guide – **Inheritance Tax Guide**

Income Tax

Income received from a BTL property is taxable and when you start renting out property, you must tell HM Revenue and Customs (HMRC) and you may have to pay tax. If you don't, you could be charged a penalty.

You must report income from property rental of more than £2,500 a year on a Self-Assessment tax return.

You must pay tax on the profit you make from renting out the property, after deductions for 'allowable expenses'.

Allowable expenses are things you need to spend money on in the day-to-day running of the property, like:

- letting agents' fees
- legal fees for lets of a year or less, or for renewing a lease for less than 50 years
- accountants' fees
- buildings and contents insurance
- interest on property loans

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- maintenance and repairs to the property (but not improvements)
- utility bills, like gas, water and electricity
- rent, ground rent, service charges
- Council Tax
- services you pay for, like cleaning or gardening
- other direct costs of letting the property, like phone calls, stationery and advertising

Allowable expenses don't include 'capital expenditure' - like buying a property or renovating it beyond repairs for wear and tear.

Interest Only Mortgage

The majority of landlords typically select interest only for their BTL mortgage.

The reason for this is because it minimises monthly outgoings. Also, the interest payments on a BTL mortgage can be offset against the rent for tax purposes, whereas repayments of capital cannot.

Whilst it is considered a good way to keep monthly repayments low, it's very important to make sure you'll have the funds to repay the full amount you borrowed at the end of the mortgage term. With a buy to let mortgage this is generally through the sale of the property.

Repayment mortgage

If you opt to use a repayment mortgage, as well as interest, monthly repayments will also include part of the capital borrowed. Assuming all repayments are made at the end of the term there will be no outstanding balance.

The monthly cost of a repayment mortgage will be greater than for an interest only mortgage, but with the benefit of owning the property outright once your mortgage is repaid in full.

Contact Us

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Your home or property may be repossessed if you do not keep up repayments on your mortgage.

Please note: Although L&C is authorised and regulated by the Financial Conduct Authority (FCA), the FCA does not regulate most Buy to Let mortgages.

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