BUYING A SECOND PROPERTY
IS THIS STILL A GOOD INVESTMENT?

Land values typically increase in value more than most other investments and particularly at times of low inflation. However it is important to count the costs before going ahead.

TAX

Stamp Duty Land Tax (SDLT) rates have recently increased for second and subsequent properties. The rates are now less favourable than for purchases of ones only or main residence. The rates are 3% up to £125,000.00, 5% between £125,000.00 and £250,000.00, 8% between £250,000.00 and £925,000.00, 13% between £925,000.00 and £1.5 million and 15% for properties over £1.5 million. The rates are therefore consistently 3% above the existing SDLT rates for first or only properties.

Capital Gains Tax (CGT) is chargeable on the increase in value when a second or subsequent property is sold. Reliefs are available e.g. for gifts to spouse, civil partner or charity or if the property is a business asset (although the reliefs for wear and tear have been replaced by a less favourable relief), or if the property is occupied by a dependent relative.

Owners of a portfolio of properties are likely to pay **Income Tax** rather than CGT.

MORTGAGES

Generally speaking lenders requirements have become more stringent in recent years, although it is worth shopping around for the best deals available. Buy to let mortgages are slightly more expensive than those offered to owner occupiers and set up fees can be considerably higher. In addition mortgage interest relief against income tax is now being scaled down as from 2017.

RENTING TO INDIVIDUAL TENANTS

Costs will include the following:-

1. The costs of creating Tenancy Agreement documentation and instructing Managing Agents if required.

2. The risk factor of default by Tenant and repossession in exceptional cases.

3. Property maintenance costs and compliance with statutory obligations and procedures, such as Gas Safe Certificates, arrangements for rent deposits and EPC’s;

4. Statutory requirements as to the rent that can be charged and the rate at which rent can be reviewed or increased.

SUMMARY

It is advisable to check that the return on investment property outweighs the expense. Investment in land must be regarded as a long term advantage rather than a quick source of funds. The rent should exceed the expenses and the increase in value should exceed the capital outlay and taxes payable.

The value of the owner's own management time should also be take into consideration.

In short investing in second or subsequent properties can still be profitable but it is important to do the sums before committing yourself.

For further information on tax see the government's website www.gov.uk/tax-sell-property.
For general advice our office can be contacted:-

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