

Buy-to-Let Guide

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. 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 letting 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, 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 administration 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.

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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.

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 letting 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 money available for this situation.*
- *Stamp Duty - Stamp Duty Land Tax 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.*



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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.

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 £3,000 for 2024/25 – 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 Slade Legal 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

Managing & maintaining your buy-to-let property

If you choose to use a letting 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 letting 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 letting 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.

Letting agents must be members of a redress scheme. You should check which independent redress scheme the agent is a member of in case you have an unresolved dispute.

If they receive money for you, such as rent payments, you should also check they are a member of a client money protection scheme. By law, this information should also be clearly visible to you at the agent's premises and on their website.

Reputable agents are often accredited through a professional body such as the Guild of Property Professionals, the Royal Institution of Chartered Surveyors or the UK Association of Letting Agents.



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Landlord obligations

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

- **How to Rent booklet:** you must provide the tenant with the 'How to Rent' booklet at the start of the tenancy. This can be found on the government website: <https://www.gov.uk/government/publications/how-to-rent>
- **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 Register registered tradesperson. You cannot let out your property without a gas safety certificate. You must give the tenant a copy of the new certificate after each annual gas safety check.
- **Electrical safety check:** you must arrange an electrical safety check by a qualified and competent person every 5 years (this applies to new tenancies from 1 July 2020 and existing tenancies from 1 April 2021).
- **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:** you must ensure that you fit a smoke alarm on every floor of the property and carbon monoxide alarms are fitted in rooms with fixed combustion appliances such as boilers.
- **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. The minimum energy efficiency band to let a property is an 'E'.
- **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 an 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.
- **Right to Rent check:** either you or your letting agent must ensure the right to rent checks have been carried out. Further information can be found at: <https://www.gov.uk/check-tenant-right-to-rent-documents>
- **Deposits:** you must protect the deposit in a government-approved scheme within 30 days and give the tenant prescribed information about it. For further details see www.depositprotection.com

- **Reasonable adjustments:** you must consider requests for reasonable adjustments from tenants who have a disability or long-term condition.

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.



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