

## But To Let (*ref 52*)

- 1.** Buy-to-let is for people who want to invest in property and rent it out to tenants. It has become increasingly popular and common. A typical situation where this is done to help family members is when parents buy a property for children to live in while they are at university. It can also be done to help disabled relatives.
- 2.** If a mortgage is needed to buy the property, the rates charged have traditionally been higher than the mortgage rates you pay when you buy your own house. Buy-to-let mortgages are often interest-only, over 25 years. Although interest rates are now closer to conventional mortgage rates than they used to be, prospective purchasers need to look out for expensive 'arrangement' fees when taking on a mortgage loan. These can be around £2,000 - £3,000.
- 3.** The maximum loan you can get on Buy-to-let is usually 85% of the property's value. Lenders will want to see that the rental from the property is at least 25% more than the cost of repaying the mortgage.
- 4.** Rental income is treated as income and so taxed in line with your basic or higher tax bands. You can offset your mortgage costs and maintenance expenses etc against the taxable income.
- 5.** Capital Gains Tax may be payable when you sell a property you have been renting. The longer you have owned the property, the lower the amount of gain which will be taxable. If you sell after three years, you will be taxed on 95% of the gain; after ten years you will be taxed on 60% of the gain. The rate at which the capital gain will be taxed varies between 20% - 40%. There is a 'lettings allowance' which is a tax free amount allowed before Capital Gains Tax kicks in.
- 6.** Is this useful for disabled relatives? Although superficially attractive, there are four main issues to be considered if people are thinking about renting to disabled relatives:
  - a. If the relative will be relying on state benefits to help with the rent, there is the possible problem that the local council's housing benefit section may decide that the renting arrangement is not a 'commercial' one and so does not attract housing benefit. Alternatively, they may decide the arrangement has been 'contrived' to get housing benefit. Again, they will not pay in this situation.
  - b. If a relative is awarded housing benefit, the actual amount they are paid is not based on the return a landlord needs from the property. In practice, housing benefit payments are unlikely to cover the money needed to pay off a large mortgage.
  - c. If a property is shared by more than two people who are not close relatives, it will be classed as a House in Multiple Occupation and may be inspected by the local council's Environmental Health Officers.
  - d. Occupants will be ordinary tenants and will be entitled to expect a written tenancy agreement, and will have rights to live in the property.
- 7.** If people are considering buy-to-let, they should make sure they get further advice from the Tax Office ([www.hmrc.gov.uk](http://www.hmrc.gov.uk)), their accountant and their solicitor. If there are queries about the benefit position, local Citizens' Advice Bureaux and Housing Options will be happy to respond to these. General advice around Buy-to-let can be found at [www.thisismoney.co.uk](http://www.thisismoney.co.uk).

If you require further information or have other queries contact Housing Options.

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