

Why Buy to Let is such a Good Thing for you



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The end of the world is nigh



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Buy-to-let crackdown will 'end the dreams' of middle-class investors



The new mortgage tests are being seen as the "beginning of the end of the middle class buy-to-let dream" CREDIT: YUI MOK/PA



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But how bad can it be?

Buy-to-let lending strengthened in Q4 2016 to account for 19.3% of all business for mortgage intermediaries, according to the latest Financial Advisers Confidence Tracking Index from Paragon Mortgages up from 17.9% in Q3



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But how bad can it be?

BTL rates hit lowest ever level: Moneyfacts

Be the first to comment



By Ruth Gillbe

Buy-to-let rates are following homeowner mortgage trends to their lowest level ever recorded, data from Moneyfacts has revealed.

Confidence up as landlords develop coping strategies

by Heather Greig-Smith

21/02/2017 • 0



Landlord confidence is rising as tenant demand increases and investors develop strategies to cope with changes in legislation.

That is according to Paragon Mortgages' latest Private Rented Sector (PRS) Trends report.

It found marked differences in landlord sentiment from this time last year when government plans to reduce tax relief on buy-to-let mortgage interest, compounded by an increase in Stamp Duty on new purchases, provoked uncertainty. At the time, the proportion of those expecting to sell property reached its highest ever level (25%).

However, Paragon said as the tax relief changes edge nearer, landlords have begun to develop strategies to manage the impact, and the figure is now reversing, down to 17%.

The most commonly reported actions have been to increase the rent they charge to cover some or all of the increased cost (24%), to maintain their current properties but not buy any more (21%) and to sell some of their properties and not buy any more (16%).

The proportion of landlords willing to purchase buy-to-let property in Q1 2017 has grown to 13%, up from a record low of 9% 12 months ago.

Of the 204 landlords interviewed, 94% described tenant demand as stable or growing, with fewer than one in 30 suggesting a decline. Tenant demand continues to impact average void periods, which remain unchanged at 2.7 weeks, with 48% of respondents reporting that their properties stand empty for less than two weeks. Average yields also remained remarkably stable at 6.1%.



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Breathe Deeply – Here's some perspective

- Historically a specialist product
- Became more mainstream due to wide range of lenders offering products
- Marked downturn
- Treasury attack – Stamp Duty surcharge/tax relief tapering
- Now it could be argued more of a specialist product once again
- This is all good news for intermediaries



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Time for a reality check

- Market is becoming more complex
- Need for advice and support more crucial than ever
- Do not be demotivated by negative comments – and don't let your clients be either
- Borrowing loosely from Mark Twain – 'News of the death of BTL has been greatly exaggerated'



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Reasons to be cheerful

Only 40% of landlords admit to completely understanding the implications of the 2015 budget concerning BTL : They need your help

Only 1 in 10 landlords have already taken action to avoid the additional tax that would be payable on their portfolio: They need your help

Those with larger portfolios are more likely to be in the higher tax brackets: They need your help

1 in 4 landlords are retired – growing market for you



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Why Complexity is Good

Limited Company Buy to Lets

HMOs

Expats

Large Portfolios (more changes on the way)

Unusual property

Simple = Direct

Complex = Intermediary



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Let's talk about Limited Company BTLs briefly

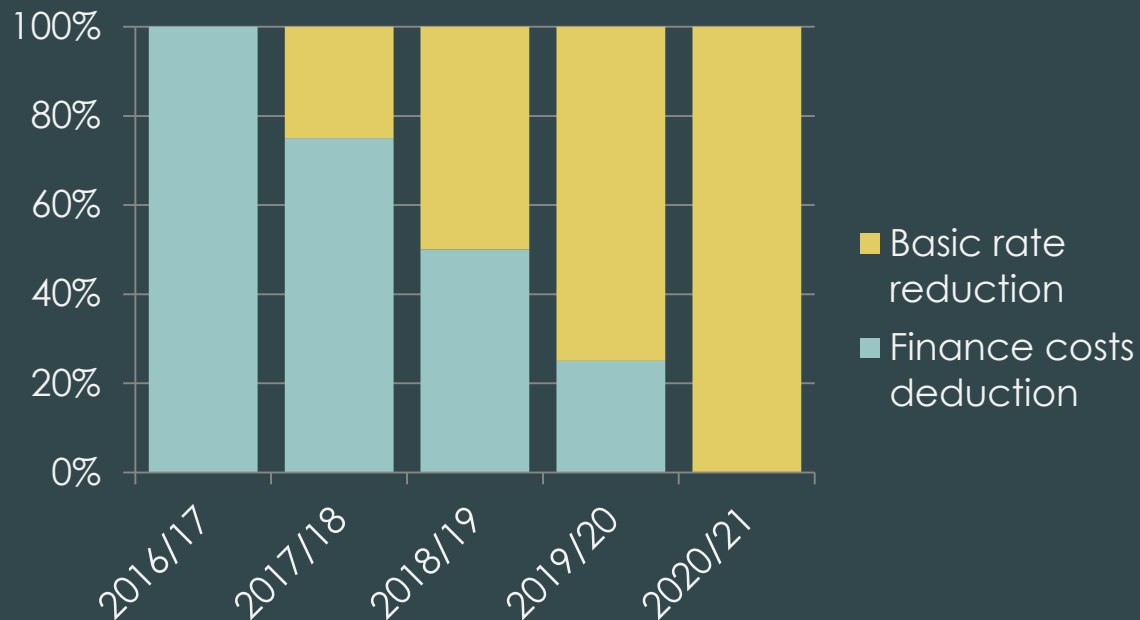


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Why are limited company BTLs becoming more popular?

- Tax changes



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Impact of tax relief changes

Current Rules

Rental income	£7,200
Costs	£1,500
Loan interest	£3,000
Minus total deductions	£4,500
Profit	£2,700

Tax payable @ 40% £1,080

New Rules

Rental income	£7,200
Costs	£1,500
Minus total deductions	£1,500
Profit	£5,700

Tax payable @ 40% £2,280
Minus tax relief @ 20% £3,000
(loan interest) £600

Total tax payable £1,680



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Options for landlords

- Buy as a limited company

Purchase

- ✓ Profits are subject to Corporation Tax at 20% in 2016 (19% in 2017, 2018 & 2019 and 18% in 2020)
- ✓ Profit can be used to fund further BTL purchases
- ✓ Company is only charged Capital Gains Tax at 20% vs. 28% for individuals
- ✓ Higher rate tax payers can better plan timing to extract profits from the company
- ✗ Additional tax may be payable when paying profits through dividends
- ✗ Any capital losses on a property cannot be offset against personal gains
- ✗ LLC mortgage products are not widely available... and are usually charged at a premium
- ✗ Company accounts filings are required

Remortgage/transfer

- Transfer to a LLC is a chargeable event so will be subject to Capital Gains Tax
- Stamp Duty will be payable
- If gifted or sold under value, it could be considered a Chargeable Lifetime Transfer for Inheritance Tax purposes, incurring a liability of 20%



Limited companies

- Up to four directors
- Ability to switch pre-offer
- Same interest rate as individual
- No maximum age limit
- Directors' loan



Limited company rental calculations

- Five year fixed rate products
125% at pay rate
- All other products
125% at pay rate or 5.50% notional rate
(whichever is the highest)



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Limited company types

- Limited company registered in England or Wales
- SIC codes
 - 68100 Buying and selling of own real estate
 - 68209 Other letting and operating of own or leased rental estate
 - 68320 Management of real estate on a fee or contract basis



Summary

- Limited company options
 - no rate premium
 - no maximum age
 - up to four directors



Who are Foundation Home Loans?

- Specialist lender
- Launched February 2015
- Bracknell based
- Growing quickly



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