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Time to take stock over buy to let

Autumn statement **Holly Thomas** and **Carol Lewis** report on the impact of higher stamp duty on second and rental homes

Buy-to-let investors are doing their sums this weekend, calculating the cost of the latest tax blow from George Osborne. The chancellor ruled that those wanting buy-to-let portfolios, and families buying a second home in the UK, would be hit with a 3 per cent rise on their stamp duty bill from April 1 next year.

According to Johnny Morris, the head of research at Countrywide, a landlord who buys a flat valued at £179,813 will now pay an extra £5,396 in stamp duty — £6,491 instead of £1,096.

The stamp duty increases come after the announcement that mortgage tax relief is to be cut from April 2017 — a move that, in some cases, will wipe out landlords' profits. Alex Phillips rents a home in London but has a portfolio of properties in the Midlands. He is planning to move and buy elsewhere, but may choose to rent instead to avoid the new tax. As he says, if more people do the same, "there will be a significant loss to the exchequer in stamp duty".

Here's what you need to know about buying a rental or second home:

The new charges

The higher stamp duty rates will be 3 percentage points above the present bands on any property valued at over £40,000. So that means that on properties valued at up to £125,000 where the normal stamp duty rate is zero, investors will pay 3 per cent. The next band — properties from £125,000 up to £250,000 — will attract a rate of 5 per cent, instead of 2 per cent, and on purchases between £250,001 and £925,000 it will be 8 per cent, up from 5 per cent.

The only exemptions are caravans, mobile homes and houseboats, as well as corporates or funds making "significant investments" in residential property — although "significant" has yet to be defined. The cash increase is highest in London, yet the proportional increase is higher in the lowest price bands. Adrian Anderson, the director of Anderson Harris, the mortgage broker, says: "The tax hike may put off a lot of amateur investors. While 3 per cent may not sound like a lot, for the smaller properties it is a substantial amount.

"A £275,000 purchase would today cost £3,750 — an effective rate of 1.36 per cent. It will inflate to an effective rate of 4.36 per cent, so £11,990, and a 320 per cent increase. For a £2.75 million purchase the stamp duty is £243,750 — an effective rate of 8.86 per cent. From April it will rise to 11.86 per cent — £326,150 — a 134 per cent increase. Relatively, the higher the property price the lesser the impact."

Loopholes

Tax experts are busy trying to find ways to circumvent the legislation. There is still a great deal of unexplained detail and questions remain about how the new stamp duty rates will be policed.

Anderson says: "Homeowners could become very inventive in an effort to minimise the stamp duty they pay. Couples may contemplate taking one name off the title deeds of the main home, for example, and then purchasing a second property in that name, but only if they are unmarried, because married couples can only have one nominated residence between them."

A spokesman at the Treasury said: "We are consulting on policy detail. But the fact is, if you already own a property, you will need to pay this extra stamp duty on any subsequent purchases."

There is also a window of opportunity for those who have more than 15 properties held in a company. The government says it will look into an exemption for such companies.

However, unless you are planning on setting up a large rental business, forming a limited company would probably not be helpful. Frank Nash, a partner at Blick Rothenberg, the accountant, explained that rolling existing property — on which you have already paid stamp duty — into a limited company would mean having to pay stamp duty a second time.

Setting up a company to buy new property would entail accountancy fees and disclosure of accountants but would be worth it for people running a large-scale rental business, says Nash. However, several buy-to-let investors forming a limited company with which to purchase properties could be fraught, and might be seen as creation of a "property fund", which would have financial regulation implications.

Nash thinks that there might be a clause implemented to enable people to buy a property to rent in the short term if the long-term aim was to use it as a main home, for example when downsizers buy a second property before selling their main home or when people buy a house to renovate but stay in the family home during the work.

When property other than a main residence is sold, capital gains tax (CGT) is due. The good news for landlords is that they are able to offset purchase costs against any eventual CGT — and that includes stamp duty.

Why invest?

Graham Davidson, the managing director of Sequre Property Investment, says: "For the northern market, prices are far lower and the impact of the additional stamp duty could be offset by capital growth in a matter of months. From an investor point of view, capital growth will now become just as important as rental income, which in the north is around 6-8 per cent — much higher than the south."

Savills forecasts that rental growth will average about 3 per cent for the next few years, reaching a cumulative 16.5 per cent by 2020.

Bricks versus shares

How £500,000 performed in a buy to let home compared with a global fund

- **F&C Investment Trust (dividends reinvested)**
  5 years: £854,500
  10 years: £1,130,500
- **Buy to let home (UK)**
  5 years: £600,000; rent: £92,024
  Total: £692,024
  10 years: £625,000; rent: £179,314
  Total: £804,314
- **Buy to let home (London)**
  5 years: £750,000; rent: £118,468
  Total: £868,468
  10 years: £915,000; rent: £243,786
  Total: £1,158,786

Source: Hamptons International

- It appears that shares have kept pace with the rise in house prices in the UK, although the FC Investment Trust has not beaten London property, one of the most successful asset classes of recent years. Also, many landlords would have turned the original investment into a far larger portfolio by borrowing against the home to acquire additional properties. The advantage of buy to let is that finance is easily available and a house also provides shelter – if disaster strikes, you can live there.
  The F&C Investment Trust is a middle-ranking performer. However, your £500,000 would have been worth much less today if you had opted for, say, emerging market funds.
  The message is don't keep all your eggs in one basket: buy to let should be part of a diversified portfolio of property, shares and some cash