

# Buy to Let (BTL) Mortgage

## Factsheet

### Things to consider

As well as demand for rental properties, there are several other things to consider when thinking about buying to let. You can find out more about some of the financial aspects below.

### Costs and tax

A number of one-off fees or ongoing costs may be payable as a landlord. Some of these can be offset against tax payable on the potential rent received from buying to let.

**HSBC cannot provide tax advice and it is recommended that you speak to a tax expert.**

#### Mortgage

An arrangement and/or a booking fee may be charged when a mortgage is taken out. The costs of paying a mortgage (interest only or capital repayment) should also be considered. When securing a mortgage, a valuation of the property will need to be carried out, which may involve a valuation fee.

You may want to commission a Homebuyer Report or a Building Survey which would be at your cost.

#### Letting Agent Fees

Fees for letting services are normally a percentage of the rental income, which may range from 5% – 15% of the rent achieved. This may include services such as finding and vetting a tenant, and preparing an inventory. You will need to confirm the exact services included with your letting agent.

#### Other costs

These will include landlord insurance, legal fees and also costs for maintaining the property. Some insurance premiums and maintenance costs may be offset against tax. There may also be other costs, such as on leasehold properties where service charges or ground rents may be payable.

#### Tax

A number of taxes may apply when buying a property and renting it out:

#### Stamp Duty

Stamp Duty Land Tax (SDLT) may be payable if you buy either a freehold or a leasehold property in England, Wales or Northern Ireland and the purchase price is more than £125,000. In Scotland, this is known as Land and Buildings Transaction Tax (LBTT) and is payable if the purchase price is more than £145,000.

SDLT/LBTT is charged at a percentage rate that varies depending on the value of the property.

Higher rates of SDLT and LBTT are usually charged if you buy an additional residential property for more than £40,000.

The higher rates will be 3% above the current SDLT rates.

#### ATED

The Annual Tax on Enveloped Dwellings (ATED) applies to high-value properties owned by companies or partnerships (where one partner is a company) or a collective investment vehicle.

#### Income Tax

When you start renting out a property you must inform HMRC. You may have tax to pay on the profit made on renting property after deducting allowable expenses. You will need to report rental profit to HMRC annually. There are different tax rules for residential lettings, commercial lettings and furnished holiday lets.

Since 6 April 2017 there have been changes to restrict tax relief for finance costs to the basic rate of income tax. Further information can be found from HM Revenue & Customs.

Property owners not resident in the UK are generally required to pay UK income tax. Under the Non-Resident Landlord Scheme, letting agents must subtract basic rate tax – currently at 20% – from rental income before it is passed on to the property owner. However, some costs, letting agents fees for example, may be tax deductible and may reduce the amount of tax that must be paid.

If a non-resident landlord doesn't have a letting agent acting for them then tenants are responsible for deducting tax, in either case deductible expenses can be taken off before tax is paid. Non-resident landlords can also apply to receive rental income with no tax deducted. The rent still remains liable to tax and must be included in a tax return.

#### Capital Gains Tax

UK residents are liable to Capital Gains Tax on the profit made on the disposal of a second property. Non-residents disposing of UK residential property are also liable to Capital Gains Tax. Different rules apply if you are temporarily non-resident. You only pay Capital Gains Tax on the gain in excess of the annual exemption. Capital Gains Tax is paid at 18% or 28% depending on your level of income.

## Responsibility and Risk

Before committing to buying to let, it's important to acknowledge the various responsibilities of becoming a landlord.

According to the National Landlords Association (NLA), landlord responsibilities include providing and maintaining accommodation in good condition and exercising "a common duty of care to all tenants and visitors".

### Responsibilities may include:

- ◆ Finding and vetting new tenants
- ◆ Treating tenants fairly
- ◆ Handling deposits
- ◆ Collecting rent
- ◆ Ensuring tax obligations are met and paid
- ◆ Abiding by regulations and inspections for electricity, gas and fire safety
- ◆ Adhering to guidelines on issues including water supply, drainage, glazing, energy efficiency and general repairs.

### Risk

**Letting residential property is a commercial transaction. You should therefore only contemplate becoming a landlord if you have wholly satisfied yourself that you are competent and capable of undertaking such a venture.** This includes competency in managing a portfolio, and an understanding of obligations and your responsibilities towards the tenant.

We will not advise you on any property investment decision or on how you can meet your obligations to tenants. It is important that you fully understand the risks and consequences of becoming a private landlord as well as the potential rewards. Independent financial, legal and tax advisers may provide advice on the decision to acquire residential property for letting. Recognised landlord bodies can also help you understand your responsibilities.

**We will assess the affordability of a mortgage based on the expected monthly income generated from letting the property to a tenant. The actual income generated may be different and can be influenced over time by changes within the rental market. You will remain responsible for meeting the costs of your mortgage and the additional costs associated with letting property for the duration of your ownership.**

### Handling financial difficulty

We have, and operate in accordance with, a written policy, setting out our handling of Buy to Let arrears and possessions.

We will consider the UK Finance guidance in the treatment of Buy to Let borrowers who fall into arrears.

**You will be expected to communicate constructively with us to help resolve financial problems.**

### Points to consider

- ◆ You are responsible for adhering to all terms and conditions of the mortgage and maintaining all contractual mortgage payments.
- ◆ Where the BTL mortgage is on an interest only payment basis, you will be responsible for the repayment of the capital at the end of the mortgage term.
- ◆ The property must be for letting, rather than occupation by you.
- ◆ We will not advise you on matters that do not directly relate to the provision or administration of the BTL mortgage.
- ◆ Those aspects on which we will not advise you, but which we will expect you to understand and adhere to include the following:
  - a. To understand and comply with the legal requirements of being a landlord, including health and safety obligations towards the tenant and implications associated with any licensing or registration requirements on you;
  - b. To treat tenants fairly;
  - c. To understand that there is a commercial risk in becoming a landlord;
  - d. To consider how mortgage commitments will be maintained in the event of void periods;
  - e. To protect the value in the property through upkeep, maintenance and, for leasehold property, adherence to valid requests from the freeholder and/or its managing agent;
  - f. To ensure appropriate buildings insurance cover is in place upon completion and throughout the duration of the mortgage.

**Your property may be repossessed if you do not keep up repayments on your mortgage.**

## Find out more

UK government landlord guide:

**[www.gov.uk/renting-out-a-property/landlord-responsibilities](http://www.gov.uk/renting-out-a-property/landlord-responsibilities)**

Stamp Duty Land Tax (SDLT):

**[www.gov.uk/stamp-duty-land-tax/overview](http://www.gov.uk/stamp-duty-land-tax/overview)**

Land and Buildings Transaction Tax:

**[www.revenue.scot/land-buildings-transaction-tax](http://www.revenue.scot/land-buildings-transaction-tax)**

Non-resident Landlord Scheme:

**[www.gov.uk/paying-tax-on-rent-to-landlords-abroad](http://www.gov.uk/paying-tax-on-rent-to-landlords-abroad)**

National Landlords Association:

**[www.landlords.org.uk](http://www.landlords.org.uk)**

UK Association of Letting Agents:

**[www.ukala.org.uk](http://www.ukala.org.uk)**

Association of Residential Letting Agents:

**[www.arla.co.uk](http://www.arla.co.uk)**

Online news and community for landlords and agents:

**[www.landlordzone.co.uk](http://www.landlordzone.co.uk)**

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**[hsbc.co.uk](http://hsbc.co.uk)**

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