

# Clarity



April 2013

## Hot property – help for every generation

**PROPERTY IS RARELY OUT OF THE HEADLINES THESE DAYS. FIRST TIME BUYERS CAN'T GET THEIR FOOT ON THE LADDER. ESTABLISHED HOMEOWNERS FIND IT INCREASINGLY DIFFICULT TO SELL. NEGATIVE EQUITY IS RAMPANT. AND ON THE FLIPSIDE, THE BUY-TO-LET MARKET IS STARTING TO BOOM.**

**W**hatever your situation or time of life, property is a hot topic that's not only dear to your heart, but has a profound effect on your life and income.

But has it always been so? When I look back to the 70s, 80s and beyond, buying and selling a house was a relatively simple way to acquire wealth rapidly, while improving your standard of living.

I bought my first house for about £6,000 in 1978, with a tiny 10% deposit. I sold it for £12,000 barely a year later. This seemingly incredible increase gave me a substantial sum to put down on my second property. It cost me £15,000 and I sold it for £22,000 after only 18 months. The gains were all tax free, of course.

And so it went on, with the odd peak and trough throughout the years. Even despite the endowment mortgage debacle (how could we have been so gullible?), steadily rising property prices ensured you could quickly amass capital and move on.

This pleasant cycle came to an abrupt halt in 2008 when we were hit by the credit crunch. Getting on the property ladder today is quite simply demoralising, especially if — like most people — your parents aren't rich or willing enough to help out. What will happen to a generation that needs a 25% deposit to buy a house that has little prospect of it increasing in value any time soon?



### NEWS IN BRIEF

#### VAT Refund Investigations Rise

The number of VAT Refund Investigations conducted by the taxman has risen by 44% over the last 12 months. 584 claims were chosen for the Extended Verification Process, up from 405 in 2011/12. VAT fraud currently costs around £1bn annually.

#### Employers More Confident to Hire

The BDO Employment Index has found that employers' hiring intentions are at their most positive for 19 months. However, employers don't anticipate economic growth over the next two quarters and confidence in hiring fell in the manufacturing industry.

#### Real-time PAYE begins

Real-time PAYE reporting began on 6 April. If you are an employer, you now need to report PAYE on or before the date you make payment. The Government is relying on real-time payroll information to introduce the Universal Credit benefit and the recently announced £2,000 National Insurance allowance for employers.

#### Tax evaders to be monitored

HMRC will be scrutinising tax dodgers closely for up to five years, under a new scheme called Managing Serious Defaulters. It will target people who have been penalised for not paying VAT; those who have to give a security deposit for VAT, PAYE, environmental taxes or insurance; and individuals who become insolvent to avoid business taxation.

### ISSUE

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# NEWS ROUND-UP

## ACCOUNTANCY AND FINANCIAL NEWS AND UPDATES FOR THP CLIENTS

### HOT PROPERTY - HELP FOR EVERY GENERATION

continued from the cover

As it is, I am feeling increasingly sceptical about the new Help to Buy scheme, which will provide equity loans or see the Government act as guarantor for some of a borrower's debt. On the face of it, it's a step in the right direction (although as the equity loan offer only applies to new-build properties, now might be the time to stash Barratt shares in your ISA).

But is the Government really proposing to lend anyone 20% of the value of a property, interest free for 5 years, regardless of whether they have substantial resources of their own? Or will the scheme be means tested? I hope this won't just be another headline grabber that fails to make a long-term difference.

If you belong to an older generation, and you've built up resources over the property boom years, your problem is different: you need to find a way of achieving a good return on your savings without taking too much risk. One way to do this is by entering the buy-to-let market, and on page 8 of this issue Andrew Gallacher looks at how you can fund a property that will potentially give a return of 6% or more before tax.

If you do go down the buy-to-let route, don't forget to declare the rental income on your tax return and the gain or loss you make when you do sell a property. It's dead easy for HMRC to check who has bought what and when, and they're using this information to clamp down on undeclared income and gains – see the news article on this page to learn more about this.

On a brighter note, if you already have a buy-to-let portfolio, our Tax Doctor Tim Housden has a great tip on page 8 for releasing equity from your let property while getting full tax relief on the increase in borrowing. Not many people know about this one and it's all completely above board.



And, as always, if you need specific help or advice with anything property related, THP is the one-stop shop that should be your first port of call. We might not have had much sunshine this spring, but at least we can help bring some to your finances!

Jon Pryse-Jones

### TAXMAN TARGETS SECOND HOME SALES



If you sell your second home, be sure to notify HMRC of any profit or loss you have made as soon as possible, as it has launched a campaign to clamp down on property tax evasion this year.

The campaign began on 5 March 2013 and is examining UK and overseas house sales for evidence of unpaid Capital Gains Tax, including houses that people have been given and their holiday homes.

If you have any undeclared profits from a second home sale, you have until 9 August 2013 to notify HMRC and until 6 September to submit the relevant information. If you don't notify HMRC before the August deadline, you will receive a harsh penalty for failing to disclose the profit. In the words of HMRC's Head of Campaigns, Marian Wilson: "It is better to come to us before we come to you. After the opportunity closes on 6 September, HMRC will use information it holds about property sales, in the UK and abroad, to identify people who have not paid what they owe. Penalties — or even criminal prosecution — could follow."

### TAX CHEATS NAMED AND SHAMED

If you haven't got your tax affairs in order, be warned. In February, HMRC started naming and shaming tax offenders on its website. It's hoped that the move will encourage people to make a full disclosure at the outset of any investigation, as this will halt publication of their identities in the online hall of shame.

### BUY-TO-LET DELIVERING 'BLINDINGLY GOOD RETURNS'

Property listings website Rightmove has said investors are plunging into the buy-to-let market for 'blindingly good returns' in the wake of the Government's efforts to stimulate lending. The company's research has found that rents are delivering an average return of 5.9%, with the Government's Funding for Lending Scheme opening up a profit gap between borrowing costs and rental returns. Mortgage Update — turn to page 8.



### ONE THIRD OF LANDLORDS 'FAIL TO DECLARE INCOME'

A million private landlords failed to declare any income in the last tax year, in contrast to the 1.9 million who did — according to new research by investigative news agency Exaro. HMRC estimates the amount of undeclared tax to be in the region of £550m per year and has set up a special taskforce to target private landlords, initially in the South East.

### 850,000 FINED FOR LATE SELF-ASSESSMENT RETURNS

Be sure to get your self-assessment return filed in good time this year. In February, 850,000 people were fined £100 for failing to submit their return by the 31 January deadline. Ignoring the problem makes it worse — late submission attracts an additional daily fine of £10 for 90 days, with those filing six months late attracting penalties of £300 or 5% of the tax bill, whichever is the greater.



# It's all about Location Chelmsford

## How THP helped one estate agency to thrive

**B**efore Neil Chamberlain set up the Location Chelmsford estate agency in Chelmsford in 2005 he worked as a banker for a major London-based firm.

He'd had a successful career, but was freshly motivated by the idea of working for himself and building up a business. A long held interest in property inspired him to set up an estate agency — Location Chelmsford — that offered truly exceptional customer service and high-quality marketing that got results.

The first year of trading was tough but Neil soon got his lucky break. He was asked to market a property in Chelmsford's prestigious Beaulieu Park and quickly succeeded where another estate agency had failed. Better still he was asked to sell three houses that were in the same chain.

This success soon led Neil to focus on similarly upmarket properties in the Chelmsford area. The Location Chelmsford service was certainly perfect for this. The agency employs professional photographers to capture the very best shots of each house, in addition to detailed floor plans and innovative audio tours — while the brochures for each property are designed to appeal to the buyers of high-value homes.



### ACCOUNTANCY THAT MEANS BUSINESS

Three years after starting the business Neil met THP's Keith Pullen at a BNI breakfast networking event. He was looking for a new accountancy firm to help him grow the business, and over the course of the next few meetings Neil was impressed by the way Keith spoke about THP's achievements for its clients.

Neil asked Keith whether he would be willing to take on Location Chelmsford as a client, and from that day THP has provided a growing range of accountancy services that have helped the company to flourish. As well as taking care of Location Chelmsford's end-of-year accounts, THP is also responsible for its payroll, VAT returns and more.

Offering high-quality supporting services is an essential part of Location Chelmsford's business. If a house buyer needs to arrange a mortgage, Neil will frequently refer them to Chelmsford's Gallacher Partnership (see page 8), and if they need accountancy services he often refers them to THP's Chelmsford office. In this way, local businesses work together to help house buyers acquire the property they have set their heart on — and to save money along the way.

### A MOVE INTO THE RENTAL MARKET

There's no denying the residential sales market has been tough in recent years. Prices have remained static or dipped a little, and not only are more homeowners reluctant to sell, but the scarceness of good mortgage deals has also prevented many buyers from getting on the property ladder or from upgrading to larger houses.



The rental market on the other hand remains buoyant. So in recent years Location Chelmsford has significantly expanded its portfolio of rental properties. Also focused on high-value properties, this strategy has reaped major rewards for the company. It now has some 40 properties on its books, most with £1,000 rents or higher, with some being let for more than £3,000 monthly.

Location Chelmsford itself has moved from premises to premises over the years. When Neil first started the business he was working from home, but as more and more homeowners turned to his agency, he was able to move into serviced offices. Today Neil and his business partner Andy Wren are based in a traditional estate agent's office with a window display in Chelmsford's Tindal Square, where they also attract business from people visiting the city centre.

Neil and Andy have found a profitable niche, so they have chosen not to develop a chain of estate agency branches. Instead they are thinking about targeting high-value properties even more effectively by opening an office in a business park location with client parking. The thinking is that this is likely to be more convenient for clients at the upper end of the property market.



If they do open new premises, THP will be there for them, offering what advice we can to make the move cost effective and providing any additional services that will help them succeed further in their target market. And if you are thinking of buying or selling a property in the Chelmsford area, be sure to give Neil a call — he'd love to hear from you.

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# BUYING AND SELLING PROPERTY IN THE DOWNTURN A MORTGAGE INTERMEDIARY'S GUIDE FOR EVERY GENERATION

Since the economic downturn first bit, mortgage lenders have been much more picky about who they lend to, and how much they lend. Fewer properties are now changing hands, and it's no understatement to say that the market is sluggish. Yet it's still possible to find some good mortgage deals, whether you want to get your foot on the property ladder for the first time, you're thinking of moving house or you want to enter the buy-to-let market.

**I**n this practical feature, Andrew Gallacher of Chelmsford-based mortgage intermediary The Gallacher Partnership, offers his advice to THP clients of all generations who are looking to buy or sell a home.

So if you are looking for a first time mortgage deal it's a good idea to take out a credit card and use it for daily purchases. However, avoid the temptation to run up large bills and make sure you pay it off in full every month via Direct Debit.

If you do have parents or other relatives who are willing to make their savings available for a fixed period, you may also be able to get a better mortgage deal. For example, Barclays has a new springboard mortgage that requires only a 5% deposit

from you — as long as your parents (or other sponsors) put forward an additional 10% and leave it in a specified savings account for three years. After this period you should have satisfied the lender about your ability to repay the mortgage

## FIRST TIME BUYERS

Did you know that unassisted purchases have halved since 2005? Since then increasing numbers of first time buyers have been forced to rely on the 'Bank of Mum and Dad'.

A recent survey showed that for one third of prospective first time buyers, raising a big enough deposit is their main problem. Currently, one fifth of first time buyers have a deposit of only 10%, which restricts the number and quality of mortgage deals open to them. Worse, the average age of a first time buyer has rocketed from 24 to 33 years old.

Ironically, because many first time buyers are saving up to get on the property ladder, they do not have a strong credit rating. With no history of credit card agreements or loans, lenders find it harder to assess whether they are good candidates for a mortgage.

**FOR SALE**



instalments, so the lender will then release your parents' money.

**BUYING A LARGER PROPERTY**

Traditionally if you were thinking of buying a larger property, you would look around for the most competitive mortgage deal.

Things have changed. Before signing up to another deal, check to see whether yours is one of the 95% of mortgages that is portable. If it is, and you have a tracker mortgage rate that will never charge more than 2% over the base rate, it may be worthwhile staying with your current mortgage. If you change you are more likely to find a deal that reverts to the lender's standard variable rate which — in the current climate

— will be significantly higher.

Remember also that you can raise the amount you need using more than one mortgage. Therefore if you have a good current mortgage deal, but you need another hundred thousand pounds (or other sum), you could retain your existing mortgage and top it up with a new product from your current lender.

**BUY TO LET**

If the property buying market has been stagnant over recent years, the rental market has gone from strength to strength. There is no shortage of tenants out there, and rents are consistently rising year on year.

However, before you decide to move into the buy-to-let market, consider your options

carefully. You are likely to need at least a 25% deposit for a buy-to-let mortgage, and if you have decided on a buy-to-let property for one of your children to live in during college or university, check that your lender is happy with the arrangement — some lenders don't like family members living as tenants in your property.

Also, be aware that you may have to pay up to a 3.5% arrangement fee on a buy-to-let mortgage. Talk to an independent mortgage broker to find the best deal for you.

**SECOND-HOME BUYERS**

Buying a second home is a popular investment for those who can afford it. The most important factor in securing a mortgage for a second home is the deposit – lenders will

normally require a deposit of some 30%. If you do not want to tie up that amount of capital, it may be possible to release some of the equity in your main home. Again seek advice before doing this.

**GETTING THE BEST MORTGAGE FOR YOUR CIRCUMSTANCES**

Where lenders were once falling over themselves to lend you money, it sometimes seems they are now actively looking for reasons to turn down your mortgage application. In fact some 60% to 65% of first-time mortgage applications are declined, although with the right advice you should stand over a 90% chance of finding a deal.

To improve the likelihood of securing a mortgage, you need to do your research. For example, if you are in the Police Service, you will not easily get a mortgage that ends after you have reached the age of 60. That's because at the age of 60 the police can insist you retire, so if you are currently 45 years old, you'll find it very difficult to get anything longer than a 15-year mortgage.

Before you make any application, talk to an independent expert. That way you'll lower the risk of being turned down, and stand a better chance of securing the right mortgage for your needs.

**SOLD**

**MY HOUSE OR YOURS?**  
I told my mother-in-law that my house was her house, and she said, 'Get the hell off my property!' Joan Rivers



# 6 Planning to let or rent a property?

*Lettings agent Robert Russell helps you avoid the pitfalls*

**A**fter a lifetime in the lettings business, THP client Robert Russell recently sold his thriving Cambridge-based agency to new owners. He looks back on his career to offer you his tips for renting and letting properties.

## **1. INSIST ON A TAILORED TENANCY AGREEMENT**

If you are thinking of letting your property, it's tempting to reach for an off-the-shelf tenancy agreement. Don't do it.

Template tenancy agreements are usually very brief and they might not have clauses that cover care of the garden, or specific issues such as Saniflo toilets — unless your tenancy agreement specifically

prohibits it, you will be responsible for paying the repair bill if your tenant sticks things down it and breaks it.

As a tenant, you are also better protected with a bespoke tenancy agreement. If properly drawn up, your rights and responsibilities are made explicit, ensuring you are not held liable for wear and tear or damage you are not responsible for.



**2. ENSURE THAT DEPOSITS ARE PROPERLY PROTECTED**

Unfortunately anyone can set up in business as a lettings agent. So unless you use an agency that is trusted and established, you will never be fully sure that tenants' deposits are properly protected. Look for letting agents that are registered with ARLA and RICS. These organisations have strict requirements about how deposit money is handled and RICS makes regular audits of agents' client accounting procedures.

As a tenant, the benefit of keeping your deposit safe is obvious. As a landlord, it protects the reputation of your property and portfolio, making it simpler to find new tenants when needed.

**3. DON'T CHOOSE THE LETTINGS AGENT WITH THE CHEAPEST FEES**

Choosing the agent with the cheapest fees can often be a false economy. Before deciding on price, look closely at the service the lettings agent offers.

Do you want them to simply find you a tenant, or do you want a full service that includes a rent guarantee, end-of-tenancy cleaning, inventories and regular property inspections? If the latter, do some research on the web and by asking around. It's vital to find out whether the agent has a good reputation in these areas. If they don't, you could end up facing a lot of expensive problems for the sake of saving a few pounds on the agent's fee.



**4. DO YOUR SUMS**

If you plan to be a tenant it goes without saying that you need to choose a rent you can afford. However, if you are starting out as a landlord for the first time, you need to take a long term view of the return you will get from your investment. The return you will get from your property very much depends on its location. For example, in central Cambridge you are going to be looking at a return of about 4.4% gross, and that's before your agent's fees. In outlying areas you may get a slightly higher return of 5.5% to 6%.



Remember also that you will have to pay for maintenance and repairs, although most expenditure of this kind is fully tax deductible. Talk to your accountant before making the decision to invest, and if you opt for a buy-to-let mortgage, ensure that the repayments aren't so high that you get only minimal returns on your rent. A mortgage broker will also be able to help you here.

**TAXING TIMES**

Sometimes it seems like there's a tax on almost everything these days. Certainly, it's all been downhill since Robert Peel's Government imposed the 'temporary' measure of a 2.9% income tax in 1842 — it has grown and been levied ever since. But much stranger taxes have been levied since ancient times. At the risk of putting ideas into politicians' heads, here are some of our favourites:

- **Urine tax.** The Emperor Vespasian (AD 69-79) didn't tax you for spending a penny, but he did tax the collection of urine from Rome's many public toilets. It was sold on at profit to tanners and cleaners who made use of the liquid's high ammonia content.
- **Beard tax.** Peter the Great, Tsar of Russia introduced a tax on men's beards in 1705. It was his way of encouraging his subjects to go clean-shaven, as was the fashion in Western Europe.



- **Hat tax.** In 1784, the UK Government introduced a tiered tax system that was dependent on the cost of a hat. In an early instance of tax-dodging, many milliners and hat-wearers argued their headwear wasn't actually a hat — leading to a legal definition of hats in 1804.

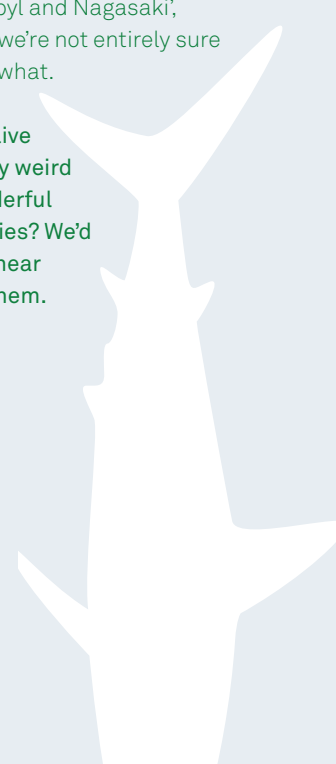
- **Printed wallpaper tax.** In 1712, Britain imposed a tax on printed wallpaper. Unsurprisingly, builders began to hang plain wallpaper and paint patterns on it.

**THIS OLD HOUSE**

What's the strangest house you've ever seen? In the UK we've got no shortage of eccentric and highly-individual folk who've turned their house into much more than a home. Like ...

- Jim Higgins of Cornwall, who lives in a bungalow built round a 130-year-old Great Western Railway carriage. Planning regulations meant the train couldn't be moved.
- The smallest house in Britain in Conwy, Wales, which has a floor space of only 10 feet by 6 feet — and was lived in by the 6'3" fisherman Robert Jones until 1900. He was forced to move when the council declared the house unfit for human habitation.
- Robert and Ann Hardy, who have converted an underground reservoir into a 5-bedroom house, right in the centre of a hillock in Sidmouth, Devon.
- Bill Heine of Headington, Oxford, who has had a 25ft model shark embedded in the roof of his house since 1986. He claims it says something about 'CND, nuclear power, Chernobyl and Nagasaki', though we're not entirely sure exactly what.

Do you live near any weird or wonderful properties? We'd love to hear about them.



# Mortgage Update

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## LOOKING TO BUY A PROPERTY OR GET A BETTER MORTGAGE DEAL? NOW COULD BE THE BEST TIME TO START LOOKING, SAYS ANDREW GALLACHER

### MORTGAGE APPROVALS RISE AS INTEREST CHARGES DROP

While the housing market has a long way to go before it recovers from the economic downturn, recent months have seen green shoots of growth. Not only has there been a marked increase in the number of mortgage applications being made, but approval figures have crept upwards too.

This has partly been down to the new Funding for Lending Scheme, which allows lending institutions to borrow from the Government at very competitive rates and thus offer more mortgages at a higher loan-to-value rate.

To give an example, if you wanted a mortgage 12 months ago and you only had a 10% deposit, the best deals open to you would have attracted interest at about 6% or more. Today there are comparable mortgages out there offering interest in the region of 4%.

Better mortgage availability has brought more first time buyers back into the market, making it easier for next time buyers and those wanting to downsize to sell their homes and move on.

Let's hope this is a trend that continues to gather momentum!

### TIME TO FIND A NEW FIXED RATE?

If you have a standard variable rate mortgage and your deal has ended (or is about to end), you may be wondering what to do next. Unless you are one of the lucky few who secured a very low lifetime tracker rate before the credit crunch bit, now may be the time to consider locking into a

longer fixed rate term. Currently it's possible to obtain a 5-year fixed rate mortgage at below 3% as long as you have at least 40% equity in your home. If you have a smaller amount of retained equity, don't worry – there are plenty of competitive long-term deals out there. Talk to your mortgage advisor – you could save yourself a significant sum over the lifetime of your loan.

**Andrew Gallacher is owner of mortgage intermediary The Gallacher Partnership, which has 8 years' experience of advising clients on mortgage and financial protection products. The Gallacher Partnership researches the whole market to find the most suitable products for your needs and offers you a complete end-to-end mortgage service, handling all the relevant paperwork and liaison so you don't have to.**

#### DID YOU KNOW?

The word 'mortgage' is a French legal term that translates literally as 'death contract'. Don't worry – it doesn't refer to your death, but the death (or end) of the contract when you either pay back the money or the property is taken back through foreclosure.

# THE TAX DOCTOR

Thought it was impossible to claim interest relief on your residential mortgage? You can now, says TIM HOUSDEN – as long as you have a buy-to-let portfolio.

The reason you can't claim interest relief on your home or Principal Private Residence (PPR) is simple – it is completely separate from your business.

However, if you have a buy-to-let property portfolio, you'll know that you can offset the interest on your mortgage payments against the rental income those properties generate.

What you may not know is that BIM 45700 of the HMRC Business Income Manual gives you the opportunity to release equity from your portfolio and continue to offset your mortgage interest payments, irrespective of why you release the equity.



This means you can remortgage properties in your portfolio and use the money to pay off the mortgage on your home. The only condition is that you can't release equity that's higher than the value of the buy-to-let property

when it was first used for letting – if you bought the property specifically for letting, this will normally be the property purchase price.

There are two ways you can use equity release to lower your tax bill. You can either remortgage your current buy-to-let property or properties, or you can move equity from a former home that you are either letting, or plan to let.

Here's one example of how you might do it.

You buy a property for £250,000 and let it out. You put down a deposit of £100,000 and borrow the remaining £150,000 from your bank. Six years later, the property is revalued at £360,000. There is now £260,000 of equity in the property, of which you can release up to £250,000 (the value of the house when first let). By remortgaging you can use the equity to reduce the mortgage on your main residence.

In this way you reduce the debt on your home and transfer your borrowing to your buy-to-let properties, where you can claim interest relief against rental income.

It's a simple technique, but it can save you thousands of pounds each year. And if you have a number of buy-to-let properties, it's quite possible that you can remove all the debt from your main residence and transfer it to your portfolio, claiming interest relief on the whole amount.

If you think an arrangement like this could help you, please get in touch. We'd be very happy to advise you.



**City** Clements House, 27-28 Clements Lane, London EC4N 7AE t 020 3207 9078 e city@thp.co.uk  
**Wanstead** 34-40 High Street, Wanstead, London E11 2RJ t 020 8989 5147 e wanstead@thp.co.uk  
**Cheam** Turnbull House, 226 Mulgrave Road, Cheam, Surrey SM2 6JT t 020 8652 1070 e cheam@thp.co.uk  
**Chelmsford** Shalford Court, 95 Springfield Road, Chelmsford, Essex CM2 6JL t 01245 251731 e chelmsford@thp.co.uk  
**Saffron Walden** 24 High Street, Saffron Walden, Essex CB10 1AX t 01799 527478 e saffron@thp.co.uk

Design and artwork: lowenhoff@gmail.com