Private Clients
Part of the Foster Denovo Group

Property investment: To buy or not to buy

A whole look at investing in property

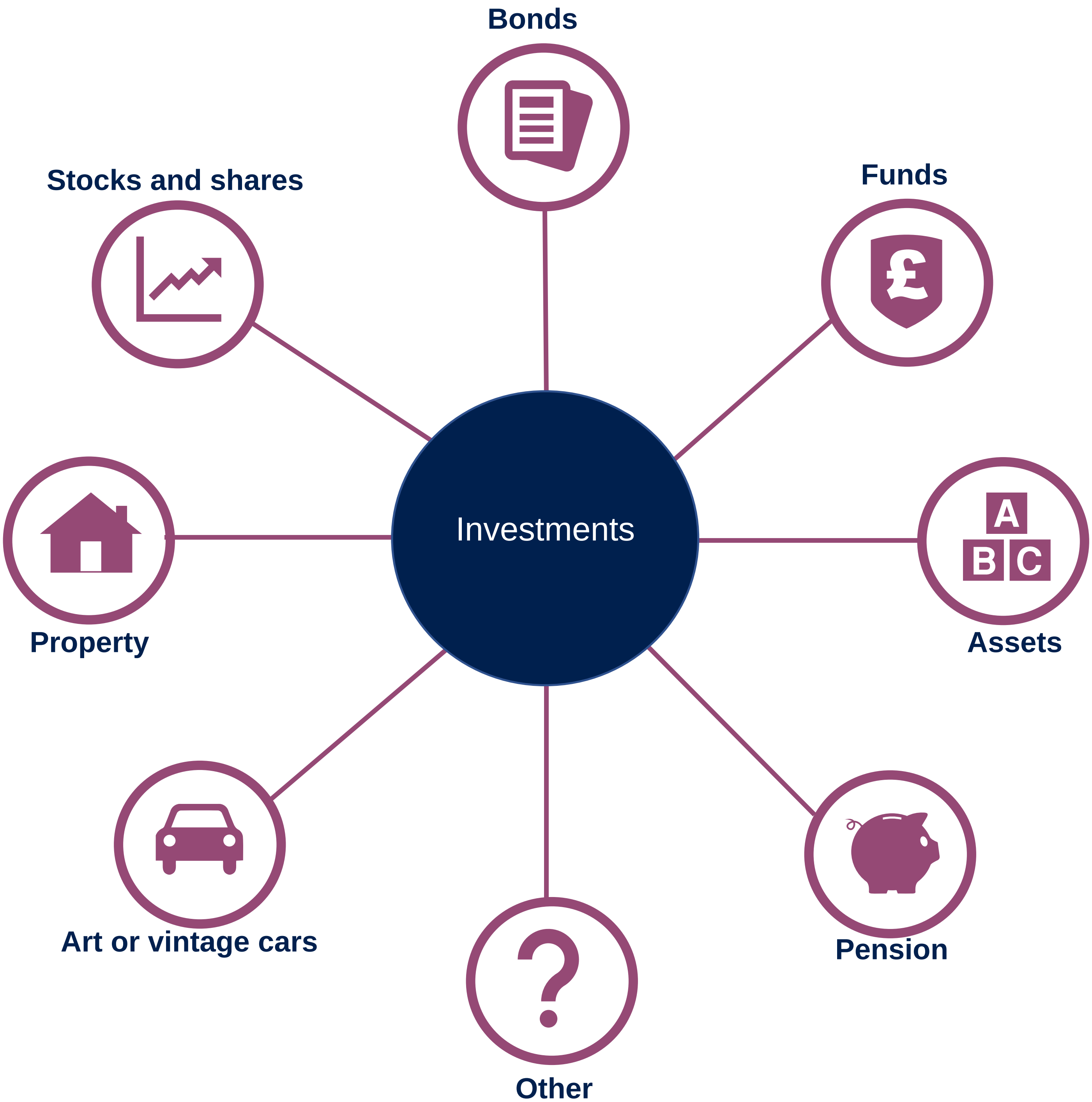
Knowing what to do with your money and where to invest it can be a difficult decision. And, when it comes to investing there is no right or wrong answer, and no guaranteed certainty on what the return on your investment might be.

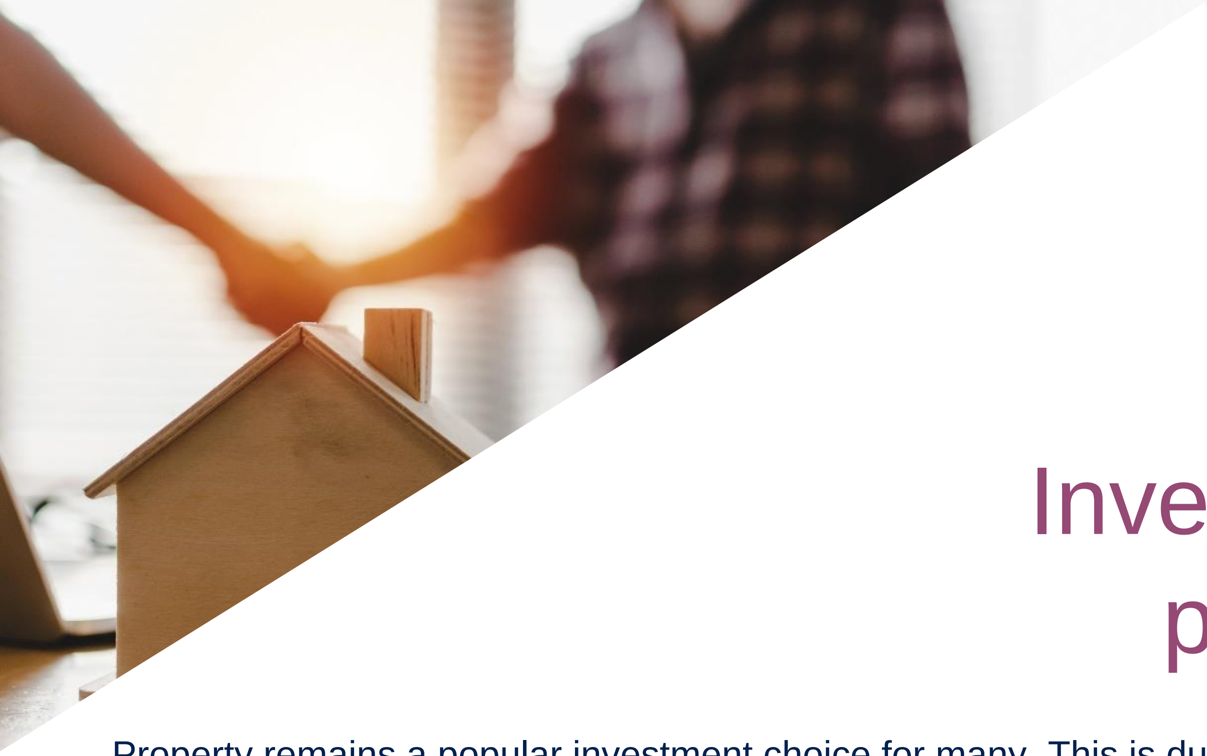
Therefore, before deciding on where to invest your money, you should:

- consider your financial goals and what you want your investment to achieve;
- understand your investment, including the potential risks, or tax implications;
- know that investing is a long-term strategy; and
- consider seeking professional financial advice.

Investment options

There are a number of options when it comes to investing your money, including:





Investing in property

Property remains a popular investment choice for many. This is due to the continued growth in the property market over the years, as well as the continuous rise in property prices. With this, there has been low mortgage rates and a serious demand for rental properties from tenants.

There are different ways to invest in property within the UK. These include property development, property fund investment and buy to let, as well as others too. Many people invest in property to provide them with a regular income now, or to use as their pension income when they retire.

And, although property can be a good investment, it's important to remember that having a diversified portfolio and splitting your money across a range of investments is really important to protecting your wealth.

It's also worth thinking about your exit strategy when investing in property as this can often be overlooked. Having a plan in place before you start is best, as there can be financial implications without one.

No matter how you invest your money, it's important to know your investment options. To help you understand more about investing in property, here are some key things to consider.

Tax

There are tax implications to consider when investing in property.

Many people believe that a buy-to-let investment property will be treated for taxation in the same way as their home. Unfortunately, this isn't true, as you will see below.

	Your home	**Buy-to-let**
Stamp Duty Land Tax (SDLT) when purchased	**Variable** Variable depending on the purchase price of the property. Applies to purchase prices over £250,000 until 1st October 2021, and £125,000 thereafter.	**Extra 3%** An extra 3% is payable on top of the standard rate. So, on a purchase price of £350,000 an extra £10,500 would be payable on top of the normal rate.
Income Tax	**Earn up to £7,500** The Rent a Room scheme allows the owner to earn up to £7,500 a year tax free from letting out furnished accommodation to a lodger in their home. This is halved if shared with someone else.	**Income tax on rental fees** From April 2020, landlords can no longer deduct mortgage expenses from rental income to reduce tax. They do however receive a 20% tax-credit based on any mortgage interest payments. For higher rate taxpayers this is less generous than previous rules where 40% would have been available.
Capital Gains Tax (CGT)	**No CGT** In most cases Private Residence Relief applies, so no CGT is payable on sale.	**8% higher** Basic rate taxpayers will pay 18% on gains over the CGT allowance*, and higher rate taxpayers, 28%. These rates are 8% higher than the standard CGT rate.
Inheritance Tax (IHT)	**Residential nil rate band** In many cases, and assuming the property is left to a lineal descendant e.g. children, the deceased's estate could benefit from the IHT residential nil rate band on top of the standard IHT nil rate band.	**40% IHT** Buy to let properties do not benefit from the IHT residential nil rate band. Therefore, the entire value could be subject to 40% IHT.

***The CGT allowance for the 2021/22 tax year is £12,300.*

There are many differences between investing in a buy-to-let property, a pension, an ISA, and a General Investment Account. Below are just some examples.

<table>
<tr><th></th><th>Buy-to-let</th><th>Pension</th><th>ISA</th><th>General Investment Account (GIA)</th></tr>
<tr><td>Tax relief when investment made</td><td>None</td><td>For most investors tax relief is available up to either £40,000 annually, or 100% of their earnings – whichever is lower.</td><td colspan="2">None</td></tr>
<tr><td>Income and Dividend Tax whilst invested</td><td>The first £1,000 of your income from property rental is tax-free. Anything over this should be declared on your self-assessment tax return.</td><td colspan="2">No tax is payable whilst invested.</td><td>Dividend tax of between 7.5% and 38.1% is payable on any dividends received over the dividend allowance.</td></tr>
<tr><td>Capital Gains Tax (CGT)</td><td rowspan="2">Basic rate taxpayers will pay 18% on gains over the CGT allowance*, and higher rate, 28%. These rates are 8% higher than the standard CGT rate. Any un-realised gains are written off in the event of death, but CGT may be payable on any post death growth in value whilst probate takes place.</td><td colspan="2">No CGT payable on gains.</td><td rowspan="2">Basic rate taxpayers will pay 10% on gains over the CGT allowance*, and higher rate 20%.

Any un-realised gains are written off in the event of death, but CGT may be payable on any post death growth in value whilst probate takes place.</td></tr>
<tr><td>Tax when monies disinvested</td><td>Ordinarily up to a quarter of the fund is available as tax free cash, with the rest taxed as income. For the majority of people investing in a pension, they will benefit from the tax relief provided at outset.</td><td>No tax is payable when disinvested.</td></tr>
</table>

**The CGT allowance for the 2021/22 tax year is £12,300.*

Income and fees

Having a buy to let property can be a great way of earning a second income or even paying off a mortgage on a second property. It can also help build your investment portfolio and increase your savings for the future.

And, with the population in the UK growing, with a prediction that it will surpass 69.6 million by mid-2029[1] there will always be a demand for housing.

However, there are some additional fees to consider on top of the tax mentioned above. When buying or selling a property you'll need to remember stamp duty, solicitor's fees and survey costs. If you then decide to let the property out, there will be the continuous running and maintenance costs as well as any estate agent fees.

1. https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationestimates/articles/overviewoftheukpopulation/january2021

Other costs

If you are using the rental income to pay for the mortgage on the property, it's important to bear in mind what would happen if your property was vacant for a long period of time. The mortgage, estate agent fees and running costs would still need to be paid for, therefore it is important to ensure these would still be covered. There are also other costs to consider, such as:

- Specialist landlord insurance and emergency repair insurance
- Installation/maintenance of fire and carbon monoxide alarms
- Portable appliance testing and consumer unit testing
- Electrical Installation Condition Report (EICR)
- Energy Performance Certificates
- Gas Safety Certificate
- Wear and tear

Investment growth and stability

Compared with other investment types, the property market could be seen as one of the less volatile markets. According to Property Data[2], house prices and the property market have remained fairly steady over the last decade.

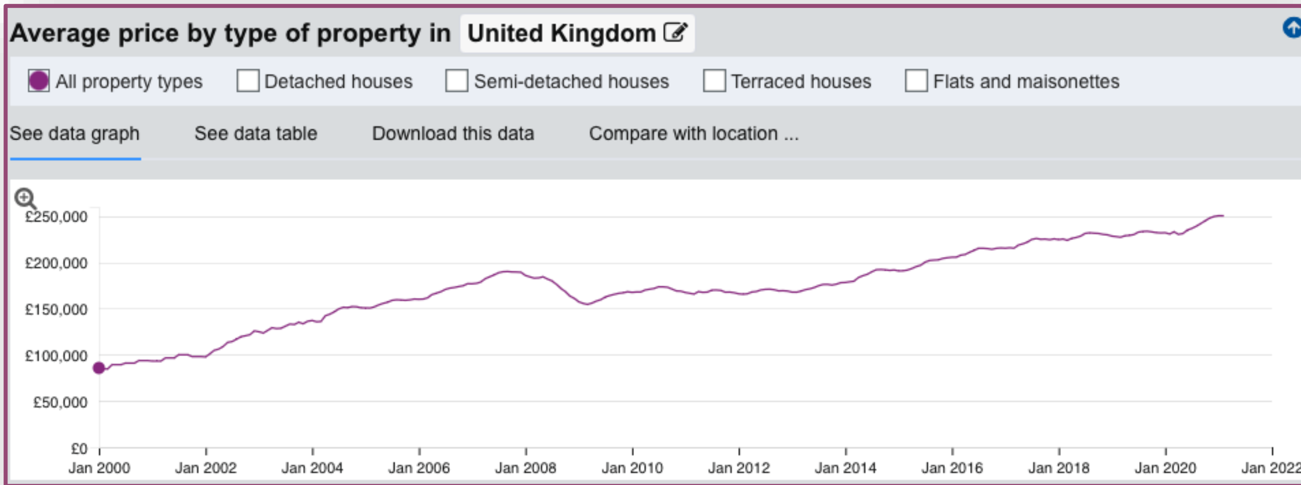
Although the property market continues to grow and may seem a less volatile investment choice, it may not be the one with the most growth. For higher returns, it may be more beneficial to look at other options.

It may also be worth bearing in mind that when you invest in the UK property market compared to other investment types, you are only investing in one country’s market.

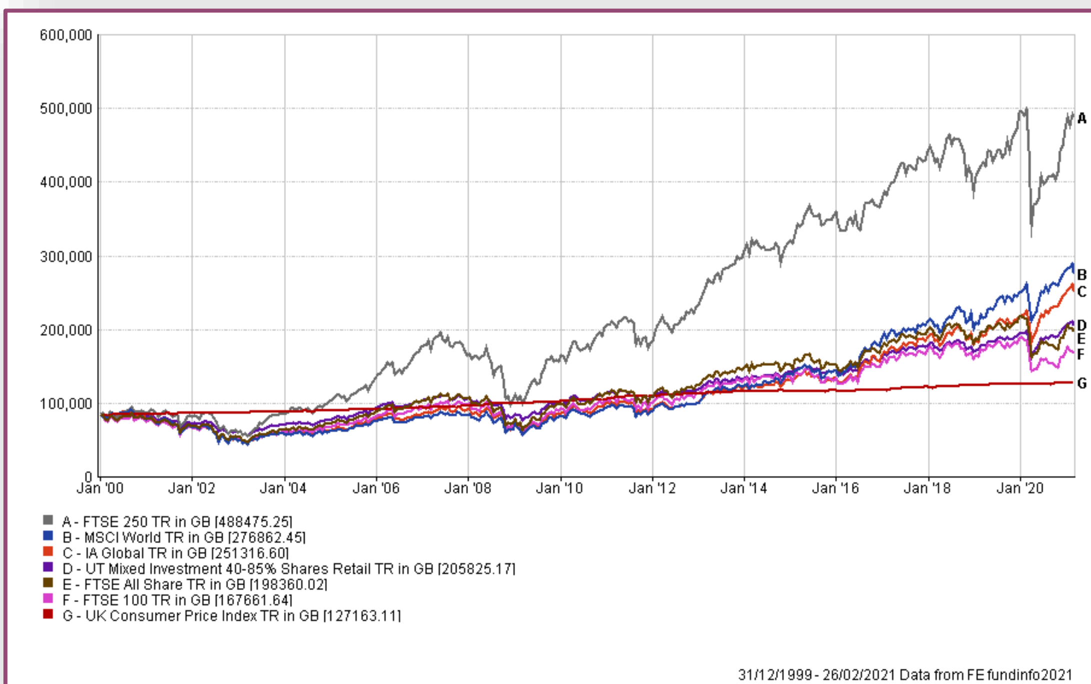
2. https://propertydata.co.uk/charts/house-prices

Property and investment prices

The graph below shows the UK property market since the beginning of the century where the value was £84,620 and at the end of February 2021 was £250,341[3].



However, this graph below shows the same time period and investments in the global market, which are higher. This graph also shows the importance of smart diversification.



3. https://landregistry.data.gov.uk/app/ukhpi/browse?from=2000-01-01&location=http%3A%2F%2Flandregistry.data.gov.uk%2Fid%2Fregion%2Funited-kingdom&to=2021-04-01&lang=en

Financial advice

Choosing how and where to invest your money is down to your personal circumstances and financial goals. It also depends on the level of risk you are willing to take, how much you have to invest and when you are expecting to see returns.

Before making any investment decisions, it may be beneficial to speak to a financial adviser to ensure you understand all of your investment options and costs involved.

If you would like to find out how we can help you, please speak to your Partner. Or, if you are new to Foster Denovo:

call 0330 332 7866*,
email advise-me@fosterdenovo.com, or
visit www.fosterdenovo.com.

* Calls are charged at your standard landline rate.

This document is for general information only and does not constitute advice.

The value of your investment can go down as well as up and you may not get back the full amount invested.

Your home or property may be repossessed if you do not keep up repayments on your mortgage.
The Financial Conduct Authority does not regulate art, vintage cars, taxation and trust advice and some aspects of buy-to-let mortgages.

It may be difficult to sell or realise the investment property, or obtain information about its value, or the extent of the risks to which it is exposed. It may also be difficult or impossible to realise an investment in the property fund because the underlying property concerned may not be readily saleable.

The value of property investments and income from them can go down as well as up and investors may not get back the amount originally invested. As property is a specialist sector it can be volatile in adverse market conditions, there could be delays in realising the investment. Property valuation is a matter of judgement by an independent valuer therefore it is generally a matter of opinion rather than fact.

Past performance is not a guide to future performance and should not be used to assess the risk associated with the property investment.

Foster Denovo Private Clients is a trading name of Foster Denovo Limited, which is authorised and regulated by the Financial Conduct Authority. Registered Office: Foster Denovo Limited, Ruxley House, 2 Hamm Moor Lane, Addlestone, Surrey, KT15 2SA. Telephone: 01932 870 720
Email: info@fosterdenovo.com Website: www.fosterdenovo.com

PrivateClients