



FACTSHEET 32

Domestic Property As A Pension Alternative

Introduction

Over the last year I have noted that many clients , dismayed at the recent poor performance of their pension funds , have turned to investment in buy to let domestic property . Before continuing it is worth pointing out that all investments can and do rise and fall in value over time , including investments in pension funds' underlying equity holdings and in domestic property values . However , what follows are some noteworthy points for anyone who wants to climb on to the buy to let bandwagon ; these points should not be construed as an investment recommendation .

Property Deposit

For a buy to let property you will typically have to find 30 per cent of the value of the property as a deposit . The remainder will be borrowed from a mortgage lender repayable over ten to fifteen years .

Rental Income

The rent charged for the property will generate sufficient funds to cover the monthly mortgage repayments . Clearly if the property is vacant for any length of time then you must be able to fund the monthly deficit . Hopefully , in time , rents will rise while associated costs will remain fairly static .

Taxation Where Property Bought Privately

You will be liable to tax on the surplus of income over deductions for loan interest , factors fees , wear and tear allowance (see Factsheet 33 for detailed notes on permissible tax deductions for repairs , renewals and improvements) .

Taxation Where Bought By Limited Company

If the rental surpluses are not required then consideration should be given to forming a limited company to hold the property . Surpluses will then be

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charged to tax at the various small company corporation tax rates which could mean a zero per cent tax rate on the first £10,000 of profits . Surpluses could be retained within the company and used to repay borrowings earlier .

Then , Say , After 10 To Fifteen Years

In time the company could contain a property with no associated borrowings plus a cash balance and have a regular rental income . At that time you may want to start withdrawing funds from the company as regular dividends . In time the company could sell the property .The company would then be liable for capital gains tax (at corporation tax rates) which should not exceed 19 per cent . You could then continue to withdraw dividends from the company throughout your retirement .

Long Term Investment

To be advantageous investment intentions should be long term to offset any costs associated with , for example , the early winding up of a company . Also in the short to medium term there will be little prospect of withdrawing an income .

For further advice and before taking any action please give me a call .

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