dns accountants

Property guide

First time buyers

Introduction

Land and Property can take many forms and sizes, a diversity of owners and uses.

HMRC assesses taxes annually on income from property, and on the increase in value at sale. Hence there are many opportunities to optimize your taxes just by planning and timing your actions.

Additionally, HMRC wishes to promote some types of action, so it may be to your advantage to take these opportunities, while available.

Here we have outlined some of the key opportunities available to you.

If you want to know more about any of these or book a meeting with an independent financial advisor, then do contact dns accountants.

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Buying your first property

Buying your first property is a big step, not to be taken without consideration.

- Can you afford to purchase a property?
- Can you afford to run a property?
- Where is the money coming from?
- Are you buying it on your own or with others?
- Are you going to live in it on your own?
- What type of property do your need/want?
- Where are you buying?
- What about Tax?

And that is all before you go on the hunt to see if you can find that elusive property that ticks all the boxes.

This guide takes you through the main planning points.

If you would like help with planning, mortgages or a Financial Advisor then do contact dns accountants for help.

Advance planning

If you know that one day you will want to buy a property, then here is come advance planning you can do to save you money.

Build up a deposit

A big deposit reduces your mortgage and can get you a better interest rate as the mortgage will be a lower risk for the lender, being a smaller proportion of the total property cost.

Save using a lifetime ISA

A tax-free way to save is by putting the money away in an ISA savings account. But if you know you are saving to buy your first home, then you could use a special Lifetime ISA, as HMRC will add an extra 25% to your fund.

Build a good credit history

When reviewing what interest rates to offer you on loans etc. the banks and other lenders will refer to your credit history. Looking after your finances properly gets you a good credit score, too many loan applications, unscheduled overdrafts, missed loan repayments etc. get you black marks. If you have never had a loan or credit-card then you may lack history. Take care of your history to get better deals in the future.

A steady source of income

Lenders will not lend unless they can see how they will be repaid. Hence a steady job or regular source of income is a good idea before you apply for a mortgage.

Planning what you can afford

There are several parts to planning what you can afford

- what money can you amass to purchase the property, and pay fees etc.?
- what are your initial set up costs – new furniture, etc.?
- what are the ongoing costs of owning a property, including costs for servicing any loans?

Money to buy

Hopefully you have built up a deposit or fund of money to help you to purchase a property. You will need such a fund to be a deposit towards your mortgage but also to cover upfront costs, that you need to pay before you get your property: -

- Legal fees for checking and transferring title
- Valuation fee for mortgage
- Surveys to check for structural issues
- Mortgage arrangement fee

A big deposit will also help you to get a mortgage at a good interest rate. A financial advisor or mortgage broker will then help you work out what lenders will let you have – usually about 4.5 time your income.

However, you will need proof of income in order to get a mortgage. If you have a steady job then 3 months' pay slips is usually sufficient. However, if you are self-employed or the director of a company then they may wish to see 3 years accounts or tax returns.

What you can provide may also affect what you may be offered, so a mortgage broker or independent financial advisor is recommended to find you the best offer out there for you.

Setup costs

Few properties are 100% ready for habitation by you. Further costs you may need to budget for before you can move in or soon after are as follows: -

- Essential property repairs e.g. rewiring
- Removal costs
- Essential new furniture or equipment to fit in the new property
- Desired repairs or renovations
- Purchase of new or more suitable furniture, carpets, curtains etc.

Ongoing costs

When reviewing what interest rates to offer, lenders will consider affordability. Neither you nor the lender wishes to call in the loan and reposes your property. So, you too need to be sure you can afford the ongoing costs. If interest rates go up, then will you still be able to make the repayments?

Many lenders and your financial advisor may ask you to advise of personal outgoings, expenses and debts as well as household bills – so be prepared and do your own sums. How much can you really afford to pay the mortgage company every month, for years?

Ready to buy

If you are buying your main family home, then after all that planning, you should be ready to go ahead. However, if you are planning to make money from this property then do talk to dns accountants as it is the plans at the point of purchase that dictate if HMRC consider the enterprise to be one of trading, investing or just making a home, and the taxes can be very different.

Found a property?

Once you have found a property then you need to check it out

- The estate agent will talk to you about location and local amenities, schools & parking.
- A home information pack will include energy reports but may include other useful details– do read this to be aware of issues.
- Your surveyor will check out the integrity of the property, and with a full report may even suggest ongoing maintenance issues – do read this and budget costs.
- The mortgage survey will check that the property is good for security on the loan, but may also impose conditions – what will these cost to fix? Note this is not your survey.
- The mortgage valuation will just check that the property is worth the money.
- The Solicitor or conveyancer will check title, restrictions and covenants. You need to read and understand these – what are the ongoing costs, can you do what you want to do with the property
- Check out what is included or not in the agreement – estate agents are not always accurate
- Are there any shared parts or other obligations– what are the costs of maintaining these, can you fulfil them, and will they restrict your use?
- Check access to the property, for you and others such as neighbours or the general public
- Are there any ongoing issues in the neighbourhood that could affect this property in the future, good or bad?
- What services will you want, are they available or will there be big connection costs?

Only if you are still happy should you go ahead with your purchase.

The buying process

The buying process has many steps including the following:-

- Planning - to see what you can afford
- Find professionals to help you – dns can recommend Financial Advisors
- Find a property – The estate agent will assist with viewings etc.
- Agree a price – The estate agent will act as middleman with the seller
- Exchange details – including solicitors' details for contracts
- Check out the property – as above
- Exchange contracts – i.e. commit and pay a deposit, usually 10%
- Arrange services, especially insurance
- Complete – pay balance and receive keys
- Move in – remember to read meters (Gas, Electricity, Water)
- Connect services – Telephone, Internet, Alarms
- Register – TV License, Council tax, electoral roll
- Advise all of change of address – Postal re-direction is useful to catch all
- Get your details changed re ID – driving license, HMRC, employer.

Where to get help

Accountant – to help you budget or recommend other professionals
Financial Advisor – to help you plan your finances and find you a mortgage or lender
Estate Agent – to help you find a property
Mortgage Broker or Bank manager – to help you choose a mortgage
Bank or other lender – to offer you a mortgage
Solicitors or conveyancer – to do the paperwork, and handle the money
Surveyor – to look at and report on the property

Types of ownership

Buying a property outright, on your own is not the only option. You could choose to buy with someone else or using a shared ownership scheme. Here are some of the alternatives for you to consider.

Tenants in common

Purchasing a property with other individuals, usually friends or relatives, is a good way to get on the property ladder. It can also be very useful for partners with stepchildren, as each owns a share of the property and if one of them dies, they can leave their share to whomsoever they wish.

You need to agree underlying ownership shares and may want to put in place an agreement regarding costs and liabilities – especially a mortgage.

Joint tenants

An alternative way of purchasing property with others is as Joint Tenants. This is usually for cohabiting partners and their family as each of the joint tenants has rights to the whole property; if one of them dies then the other gets the whole property automatically.

Shared ownership

You can get a shared ownership home through a housing association – you buy 25% to 75% of a leasehold property and then pay rent to the housing association for the rest. This is an HMRC sponsored scheme so there are qualification criteria.

Government schemes

The government wants people to own their own home so have put some schemes in place to help

Help to buy - Equity loan scheme

If you are buying a new build from a registered help to buy builder, for less than £600,000 as your new home, but are short on funds for a mortgage deposit, then you may be eligible for an equity loan of up to 20% (40% in London). You do need a 5% deposit and the mortgage should cover the other 75%.

Fees are payable on the loan annually from year 6 and the loan is repayable at a percentage of the value of the property, not the sum lent, either on sale or at year 25.

Such loans are available via help to buy agents

Shared ownership schemes

Housing association properties may be available to purchase under a shared ownership scheme. You can go on the waiting list to be matched to a property.

- If your household income is less than £80,000 (£90,000 in London), and you are a first-time buyer then you may qualify to purchase 25%-75% and pay rent on the rest under the general shared ownership scheme. This general shared ownership scheme is also open to existing shared owners and previous home owners who cannot afford to purchase a new one.
- If you are aged over 55 then you may qualify to purchase 75% and not need to pay rent on the rest under the special Older People's Shared Ownership Scheme(OPSO)
- If you are long term disabled then you may qualify to purchase as little as 25% of the property under the home ownership for people with a long term disability scheme (HOLD)

Right to buy scheme

If you have lived in a council home for more than 3 years then you may be entitled to buy that property, at a discount, even if it has subsequently been sold on by the council.

The discount is dependent on how long you have been a council tenant, the type and value of the property, but could be as much as £82,800 (£110,500 in London). However, you may have to repay some of the discount if you sell within 5 years.

Lifetime ISA

If you have been saving for your first home, then you may have chosen to do so using a special Lifetime ISA, intended for use to buy your first home or to save for later in life.

- Available to anyone aged 18 to 40.
- You may invest up to £4,000 pa, until you're 50.
- The government will then add a 25% bonus to savings deposits.

Discounted sales

When councils and housing associations build new homes, some may be sold to locals at a 25% to 50% discount. Each local council sets it own criteria so it may be worth investigating if there are such properties in your local area.

Right to build scheme

Councils must give planning permission for as many plots as they have people on their register of those interested in building their own home. If this is of interest then sign up at the right to buy portal; and check or re-register regularly so that you are still on the council list, and more plots may be authorized.

Taxes

If you just use your property as your main family home and have no other home, then you are unlikely to have any further tax to pay on that property after purchases taxes (SDLT).

Stamp Duty Land Tax (SDLT)

Stamp Duty Land Tax (SDLT) is a tax paid when properties change hands. It is paid by the purchaser, based on land or property value. It is due within 14 days with penalties and interest for late filing or payment.

There are special rates for first time buyers if the property is worth less than £500,000

Band: market price £	Residential rates	First time buyer rates
0 – 125,000	0%	0%
125,001 – 250,000	2%	0%
250,001 – 300,000	5%	0%
300,001 – 500,000	5%	5%
500,001 – 925,000	5%	
925,001 – 1,500,000	10%	
1,500,001 and over	12%	

Example – on a house costing £400,000 a first time buyer would pay £5,000 (0% on first £300,000 and 5% on the balance) but a second time buyer £10,000 (0% on first £125,000, 2% on next £125,000 and 5% on the balance) – but on a property costing £505,000 there would be no difference.

Check your SDLT at https://www.tax.service.gov.uk/calculate-stamp-duty-land-tax/#/intro

There are different rates for commercial property.

Income tax

If you rent out or in any other way charge others to use or stay in or on your property, then that income is reportable and taxable. However, there are two allowances you may use instead of collating costs and preparing rental property accounts: -

- Property Allowance – £1,000, as a deduction from total property income, provided none of that income is from your employer. Or as an exemption from reporting gross property income below £1,000.
- Rent a room relief - £7,500 as a deduction from the gross income received from letting out furnished rooms in your own home. Or as an exemption from reporting such gross income below £7,500.

dns accountants can help with preparing personal tax returns should your income exceed these allowances.

Capital Gains tax

When you sell a property then it can be subject to capital gains tax on the increase in value over your ownership. If it has only ever been your main family home during that period then you will probably qualify for exemption under private residence relief.

If the property ceases being your only family home for some reason, then you may have capital gains tax to pay when you sell it. Such taxes need reporting and paying within 30 days of sale so make sure you plan, in advance.

For a property that has at any time been your main family home then there are still some exemptions under private residence relief, e.g. last 9 months of ownership and the period when it was your main family home.

For a property that has had various uses over the period of ownership then reliefs are time apportioned. There are also various extra reliefs in special circumstances e.g. in hospital or working abroad.

Do talk to dns accountants about the tax and returns due.

Frequently asked questions

Who counts as a first-time buyer?

A first-time buyer is an individual or individuals who have never owned an interest in a residential property anywhere in the world, and who intends to occupy the property now being purchased as their main residence.

What is leasehold or freehold and what will be better for me?

Outright ownership of property and the land on which is stands is Freehold.

Leasehold means you own the property for a fixed period only (per the lease) and not the land on which it stands. When that lease term expires the property reverts back to the landowner.

Leasehold purchase means that you purchase a lease, which is a contract that gives you the right to live in the property for a set number of years (for example, 99, 125 or 999 years). Under that lease you may have an obligation to pay the landowner (the landlord) ground rent regularly.

The terms of the lease need checking out carefully to ensure you know your ongoing obligations and what liabilities or assets come with the lease e.g. liability for repairs to the property, or resident's association sinking fund.

Take care on leases of less than 75 years as you may not be able to get a mortgage. Many leases are extendable, after 3 years, for a cost.

Whether the property is freehold or leasehold, you need to check out what you are buying and the obligations you are taking on. There may be more possible issues with a leasehold property, but they do not need to be worse for you.

What are the costs of buying a property?

When buying a property then there are subsidiary costs as well as those of the land or building you are buying. Here are some you may have to pay: -

- Stamp Duty Land Tax – for properties over £125,000
- Solicitors or Conveyancers fees – for doing the legal paperwork
- Search fees – for checking title etc.
- Surveyors fees – for checking out what you are buying – basic homebuyers survey or full building survey
- Estate Agents fees – usually paid by seller
- Mortgage Valuation – just to confirm property has a value
- Mortgage Company Survey – note this is not for your use
- Loan arrangement fees
- Financial advisors or mortgage brokers fees
- Money transfer fees
- Land registry fees
- Lease transfer fees
- Service connection or reconnection fees
- Moving costs

Can I get help with the costs of moving?

If you are moving due to work, a new job or changing offices, then your employer may help with relocation costs, the first £8,000 of which may be tax free.

Such costs can include temporary accommodation while you look for a new home.

Stamp Duty Relief

If this is your first purchase, then First Time Buyer relief may be available to reduce your SDLT bill for properties worth less than £500,000.

What is a mortgage?

A mortgage is a loan taken out to buy property or land. Most run for 25 years but the term can be shorter or longer.

The loan is 'secured' against the value of your home until it's paid off. If you can't keep up your repayments the lender can repossess (take back) your home and sell it so they get their money back.

Can I buy a property with someone else, such as my dad?

Yes, you can buy a property with someone else. However, there are extra matters to consider

- Are you going to be joint tenants or tenant in common?
- The mortgage company etc. will want to check them out too
- Who is going to pay costs?
- If they already have a property, then there will be a 3% surcharge on stamp duty

Is there a difference between joint tenants and tenants in common?

Yes. Tenants in Common each own a share of the property and if one of them dies, they can leave their share to whomsoever they wish. Joint Tenants on the other hand have equal rights to the whole property so if one of them dies then the other gets the whole property automatically.

What costs do I need to consider when budgeting ongoing expenses?

If you have previously been renting, living abroad or with friends or relatives then it can be quite a shock what costs you now need to budget for. Here is a list to consider.

- Council Tax
- Rubbish collection – if not included in council tax
- Electricity – usually metered
- Gas – usually metered
- Water – may be metered
- Sewerage – may be part of water bill
- Cesspit emptying – if not on mains
- Telephone
- Internet
- Cable services
- TV license
- Insurance – property and contents
- Service charges – for shared facilities or leasehold
- Mortgage repayments and interest
- Life insurance premiums to cover mortgage
- Income protection insurance – to cover household bills
- Repairs and Maintenance

If you would like help with budgeting or arranging insurance, loans or a financial advisor then do contact dns accountants.

What is the most recent rule change?

From March 2019, Stamp Duty Land Tax payment date has been reduced to 14 days from date of purchase completion, with penalties for late returns.

From 1st April 2021 there will be a 2% stamp duty land tax surcharge for non-residents purchasing residential property in England and Northern Ireland

When do I have to pay stamp duty?

Stamp Duty Land Tax (SDLT) is a tax paid when properties change hands. It is paid by the purchaser, based on land or property value. It is due within 14 days with penalties and interest for late filing or payment.

Are there any exemptions from SDLT?

If this is your first purchase, then First Time Buyer relief may be available to reduce your SDLT bill for properties worth less than £500,000.

If you are purchasing more than one property, then you may be entitled to SDLT relief for multiple dwellings.

Do I need to pay tax on my income from Airbnb?

Income from the rental of property is reportable and taxable, but there are two exemptions you may use to legitimately avoid this: -

- Property Allowance – An exemption from reporting gross property income below £1,000, provided none is from your employer.
- Rent a room relief – An exemption from reporting gross income below £7,500 from letting out furnished rooms in your own home.

What is a lifetime ISA?

ISAs are special tax-free savings. A lifetime ISA is intended for use to buy your first home or to save for later in life and has extra benefits but more rules as follows: -

- You must be aged 18 to 40 to open one.
- Up to £4,000 pa may be invested, until you're 50.
- The government will add a 25% bonus to savings deposits
- There is a 25% penalty if you withdraw the funds other than when:
    - Buying your first home, OR
    - Over aged 60 OR
    - Terminally ill, with less than 12 months life expectancy

The flat I want to buy is Leasehold, what does this mean?

A house on its own bit of land is Freehold. Flats however can-not be on their own bit of land – so are leasehold. Leasehold means that you own a lease, which is a contract that gives you the right to live in the property for a set number of years (for example, 99, 125 or 999 years)

Someone will own the Land - the landlord. Flat owners may then pay the landlord ground rent.

Take care on leases of less than 75 years as you may not be able to get a mortgage.

Do look at the terms of the lease to see what you are responsible for and need to pay for ground rent and maintenance fees.

I have heard that you can split the ownership of a property (form-17) which is jointly owned and save tax. Is this right?

That is not the purpose of Form 17. If a property is jointly owned then HMRC considered any income is split equally, between all owners, for tax purposes; unless and until you submit a form 17 to HMRC proving that the ownership shares in the property are not equal. Form 17 is to ensure that income is split according to underlying ownership, so without a form 17 you could be paying tax on the wrong amount of income. Form 17 cannot be used to change the ownership of the property.

Conclusion

This guide is only a quick insight into a very big topic. Each property and circumstance is unique and HMRC is always changing the rules and guidance for implementation.

Please speak to dns accountants about what is currently available to you before taking any actions.

There is no limit to tax saving and planning, and there may be new opportunities available to you. We are passionate for our clients to pay the least amount of tax legally.

Ask to see our other guides in this series

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Property Guide – Structures to buy property

Property Guide – Buying property through a limited company dns accountants

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