

# INFLUENCING TENANT CHOICE

GENERAL LIFESTYLE ADVICE WILL ENCOURAGE  
MORE EFFICIENT USE OF ENERGY

## CHANCELLOR LOOKS TO UNITE MORTGAGE LENDERS AND INVESTORS

ESTABLISHED INVESTORS  
CONTINUE TO REAP  
THE BENEFITS

### ALSO IN THIS ISSUE:

REDUCING THE RISKS  
FROM BUY-TO-LET

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PROPERTY MATTERS

UK'S PLANNING SYSTEM  
SET TO BECOME MORE  
STREAMLINED

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# REVAMPED GOVERNMENT-BACKED HOME BUYING SCHEME

## HELPING PEOPLE INTO HOME OWNERSHIP

*Thousands of key workers and other first-time buyers should benefit from a revamped government-backed home buying scheme that will enable a family with an income of £32,000 to afford a £200,000 home, ministers said recently. The government has launched an initiative allowing teachers, nurses and others to take out a mortgage for as little as 50 per cent of the cost of the property they are buying.*

The government's strategy for helping people into home ownership is primarily for key public-sector staff working in health, education or community safety in areas where high house prices are affecting recruitment, social tenants and those on the housing register, and other "priority" first-time buyers. The new offering is called MyChoiceHomeBuy and is for individuals that find the home they want to buy and take out a regular mortgage from any lender they choose for as little as 50 per cent of the property's value. The remainder of the purchase

is funded via an "equity loan" of up to 50 per cent of the price, with half of the money for this coming from the government and the other half coming from a consortium of eight housing associations. The individual pay's interest on the equity loan from day one, though this "rent" will initially be set at only 1.75 per cent per annum, rising to RPI inflation plus 1 per cent. No deposit is required, but buyers can put one down if they are able to and when the property is sold the provider of the equity loan will be entitled to a share of any increase in its value.

The government said this new product would allow buyers to shop around for the best mortgage for their needs, is simpler to arrange than previous products, and gives people more buying power. "This means a household with an income of £32,000 could afford a house of £200,000, paying £760 each month - as opposed to £1,350 without the scheme," said a spokesman.

**“** No deposit is required, but buyers can put one down if they are able to, and when the property is sold the provider of the equity loan will be entitled to a share of any increase in its value. **”**

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# MORTGAGE MAZE

THE SCHEMES ON OFFER



**Discount mortgages;** offer a certain percentage off the lender's standard variable rate (SVR) for a set period, usually between 1 and 5 years. As the SVR moves, so does the pay rate on a discount mortgage, so you need to be able to cope if your monthly repayments increase.

**Tracker mortgages;** have a variable rate linked to the Bank of England's base rate. This could last for the

length of the mortgage or only for a short period at the beginning of the loan. Some lenders offer discounted trackers, which have a rate that is a set percentage below the base rate, while others add a percentage to the base rate. Both deals move up and down in line with any changes announced by the Bank of England. This is beneficial when rates are going down, but when rates are rising so will the mortgage repayments.

Most lenders apply early redemption charges during a fixed or discount period. This can make it expensive to move your mortgage during that time.

#### INTEREST-ONLY OR REPAYMENT

Once you've decided on the type

“ Most lenders apply early redemption charges during a fixed or discount period. This can make it expensive to move your mortgage during that time. ”

**Fixed-rate mortgages;** allow you to fix the rate of interest you pay on your loan for a set period of time, usually between 1 and 5 years, although longer term fixes are available. This is useful if you are stretching yourself to afford a property, as your repayments cannot increase during the fixed-rate period. Fixed-rate mortgages can save you money if interest rates are rising, but if the base rate falls you could end up paying more than borrowers on variable rate deals.

A small handful of mortgages will track a different index to the base rate, often the LIBOR (London Inter Bank Offered Rate), however these tend to be less popular with borrowers.

of loan, your main decision will be whether to choose an interest-only or repayment mortgage. With an interest-only mortgage each month you repay just the interest incurred on your borrowing. The capital is only repaid the day the mortgage ends, and can be paid off using whatever money you choose. This could be cash from an inheritance or money built up in a separate investment vehicle.

With a repayment mortgage, both the interest and capital is repaid to the lender each month. This way you are guaranteed to have paid off the debt at the end of the mortgage term and you will own the property outright.

You can also have a mortgage split into part interest-only and part repayment, for example, if you have taken a top-up loan or want to keep the monthly repayments down on part of the debt.

#### FLEXIBLE MORTGAGES

Although there is no set definition for the term, a flexible mortgage will typically enable you to overpay by any amount without penalty, including redeeming the loan; allow you to take payment holidays

or underpay providing you have overpaid enough in advance and borrow back on the mortgage (or drawdown) without charging.

Not all flexible mortgages offer all of these features, and some are available on "regular" mortgages.

#### OFFSET MORTGAGES

Offset mortgages allow you to combine your borrowing with your savings. This is a kind of flexible mortgage with an extra feature: you combine your borrowing with your savings to reduce the amount of interest you pay over the mortgage term. So, for example, if you have £10,000 in savings and a mortgage debt of £240,000, you will only pay interest on the remaining debt of £230,000.

You have to move your savings to your mortgage provider, and will miss out on earning interest on your money, but offsetting could make a sizable difference to the total cost of your loan. Your own money is kept separately and you can gain access to it when you require.

Current account mortgages are a similar proposition, although they combine your day-to-day banking with your borrowing.

Offset and current account mortgages often have higher interest rates than other loans, and you need to make sure you have enough savings to make the deal worthwhile.

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# BUY-TO-LET INVESTORS TARGETED

## MAJOR CRACKDOWN ON OFFENDERS THAT FAIL TO PAY TAX

*Buy-to-let investors who have not paid tax on money from letting or selling a property are to be targeted in a major crackdown that could net millions of pounds for HM Revenue & Customs (HMRC).*

Hundreds of letters have been sent to landlords in the first stage of what HMRC is calling its Property Campaign. Offenders will be forced to repay taxes dating back six years and could face additional fines and penalties equalling the full amount of tax owed.

HMRC says the first letters will be used to assess initial reaction and are likely to be followed by thousands more.

It is understood that officials at HMRC have trawled through data from hundreds of letting agencies and cross-referenced the results against stamp duty returns to compile a database of landlords whom it believes may not have paid any or enough tax.

Two groups of landlords have been identified: existing taxpayers, where there is information showing that they have let a property but not disclosed any income; and individuals with no tax record, but where HMRC is aware that they have let a property.

The letters demand details on all property investment activity going back six years and request a detailed breakdown of costs such as repairs and professional fees. If landlords fail to reply, HMRC in extreme cases will begin criminal investigations. If landlords reply promptly and fully disclose their income, fines and other penalties may be less likely.

There are understood to be nearly one million buy-to-let landlords in the UK, with the numbers increasing

substantially in recent years. It is estimated that 340,000 loans and remortgages were granted to buy-to-let landlords in 2007, more than the total number of loans to first-time buyers.

As the number of buy-to-let properties has increased, HMRC have become concerned that many may have gone unreported. Rising rents over recent years also means that even highly geared buy-to-let investors may be making a profit from their investments that they need to pay tax on. In addition the unpaid capital gains tax on sales of buy-to-let investments, which have not been disclosed, could also be considerable.

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**BUDGET 2008**  
PROPERTY MATTERS

The proportion of stamp duty payable on the shared equity Open Market HomeBuy scheme will no longer be required until buyers own 80 percent of the equity in their home.

In addition, key workers qualifying to enter into shared ownership schemes will only need to borrow 50 per cent of the purchase price rather than 75 per cent previously.

**LONG-TERM FIXED MORTGAGES**

The Treasury will consult further on how to achieve affordable long-term fixed-rate mortgages, reporting back at this year's Pre-Budget Report. The aim is to encourage more 10, 15 and 25-year mortgages, but details of how this will be achieved in a way that appeals to borrowers have still not been revealed.

**GREEN HOMES**

The zero carbon scheme for new homes will be extended to cover non-domestic buildings by 2019 and there will be an additional £26bn of funding for greener homes next year.

# GREATER PROTECTION FOR TENANTS

## MAJOR REVIEW COULD BE ON THE WAY

*New rules to protect tenants from unscrupulous landlords and letting agencies could be on the way, after the government launched a major review of the private rented sector.*

Launching the review, the government said it was important to look at the impact of the recent growth in the market, much of it fuelled by buy-to-let investors.

The sector has grown by almost a third over the past six years, and there are now around 2.5m homes in England being rented from more than half a million landlords.

There is current legislation in place to protect the rights and safety of tenants, such as Gas Safety, Houses in Multiple Occupation and the Tenancy Deposit Scheme. However many investors believe the rights of landlords are also less than well

protected and would like to see this addressed by the forthcoming review.

To balance the argument unscrupulous tenants can take from between 10 to 12 weeks for a landlord to regain possession of their property, going through the proper court process, costing the landlord a great deal of time, money and stress.

The review, which will be written by two academics from the Centre for Housing Policy at the University of York, will look at how the increasing number of buy-to-let accommodation and student tenants has changed the face of the private rented sector.

With people buying houses later in life, the proportion of under-30 households renting has increased to 43 per cent compared with 33 per cent in 2001.

Many low-income families use the private rented sector while waiting for a council house, but often face living in poor conditions and with little security, the government believes.

Julie Rugg, one of the academics commissioned to carry out the review, added: "Many people experience renting privately at some point in their lives, but private renting as a sector isn't well understood."

The review is expected to be completed by October. The government said it would consider its recommendations to see what else can be done to improve the sector for both landlords and tenants.

# THE RISING COST OF MOVING HOME

## HOMEBUYERS PAY MORE THAN A FIFTH OF THEIR ANNUAL SALARY ON STAMP DUTY

*The cost of moving home is increasing for many families, according to new research. Homebuyers are paying more than a fifth of their annual salary on stamp duty in almost a third of local authorities across Britain.*

This is a significant rise on the position just five years ago, when homebuyers in just 5 per cent of local authorities would face costs this high when purchasing property.

This problem has occurred because stamp duty thresholds have remained virtually unchanged, while house prices have risen sharply over the past decade. As a result, there has been a dramatic increase in the number of properties that now fall in the higher stamp duty bands, according to Halifax, Britain's largest lender.

According to the bank the average homebuyer paid a stamp

This rises to 3 per cent of the total value on homes worth £250,000 to £500,000, and to 4 per cent on properties valued at more than £500,000.

The higher stamp duty thresholds have not been altered since their introduction a decade ago. In the 2005 Budget the government doubled the threshold for stamp duty to £120,000, taking 430,000 transactions out of Stamp Duty entirely. Last year, the threshold was increased further to £125,000, exempting another 40,000 homebuyers each year from Stamp Duty.

duty bill of £1,971 last year, equivalent to 7 per cent of average annual full-time earnings.

In contrast the average person buying a house in 2002 paid stamp duty of £1,211, just 5 per cent of average earnings.

Homebuyers currently pay no stamp duty on properties valued up to £125,000. They pay 1 per cent of the total value of their property on homes priced between £125,000 to £250,000.

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# A CONTINUED HEALTHY APPETITE FOR BUY-TO-LET FINANCE

## INCREASING THE FLOW OF HIGH QUALITY HOMES TO RENT

Recent survey data from the Council of Mortgage Lenders (CML) shows that buy-to-let lending totalled £24.1 billion in the second half of 2007, up from £21.2 billion in the first half of the year and £20.8 billion in the second half of 2006.

The number of loans (including remortgages) to buy-to-let landlords in the second half of the year was 179,100, up from 171,800 in the first half of the year and 177,200 in the second half of 2006.

The total number of outstanding buy-to-let mortgages has now passed the million mark, standing at 1,038,000 at the end of 2007 which is nearly 23 per cent up on the 846,900 a year earlier.

On average, at the end of 2007 lenders had an 85 per cent maximum on the percentage of the value of the property that they were willing to advance, and required rental income to amount to 120 per cent of the required mortgage payment.

Arrears remain lower than in the wider mortgage market, with 0.73 per cent of buy-to-let loans in arrears of more than three months at the end of 2007 (up from 0.63 per cent at the end of the first half of the year, and 0.58 per cent at the end of 2006). This compares with 1.1 per cent in the wider mortgage market. The proportion of buy-to-let mortgages taken into possession was also smaller than in the wider market - 0.18 per cent for the year as a whole, up from 0.13 per cent in 2006 but lower than the 0.23 per cent in the wider market in 2007.

The CML commented that they expected to see a continuing healthy appetite for buy-to-let finance this year, in line with

expected consumer demand for private rental properties, and buy-to-let would continue to fulfill an important role in helping to deliver an increased flow of high quality homes to rent. Buy-to-let has remained resilient in the face of the funding constraints that have affected the sector and the wider mortgage market.

Many buy-to-let loans have interest rates linked to interbank rates, so may have seen hefty increases in payments when LIBOR rose to abnormally high levels in the second half of 2007. These are now likely to be returning to lower levels in line with the reduction in LIBOR rates since December last year, according to the CML.

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# SERVICED BUILDING PLOTS

## RULING WILL AFFECT DEVELOPERS

HM Revenue and Customs (HMRC) have announced changes to the VAT treatment of serviced building plots. A serviced building plot is a plot of land on which the civil engineering works have been carried out in order to facilitate construction. As such, the plot has electricity, water, sewerage and drainage and, if applicable, lighting and/or gas available to it.

In the past, a supply of such a plot has been treated as two supplies for VAT purposes, a supply of the land (exempt from VAT) and a supply of the civil engineering services (standard-rated for VAT purposes). HMRC now accept that there is only a single exempt supply of land in such cases.

This in turn means that where civil engineering services are supplied to a landowner, these should be zero-rated when being made in the course of the construction of a building designed as a dwelling, or buildings intended for use solely

for a relevant residential or a relevant charitable purpose.

For this to apply, HMRC expect that the landowner holds sufficient planning consent to demonstrate that the civil engineering works were carried out in the course of construction of a building designed as dwellings, or buildings intended for use solely for a relevant residential or a relevant charitable purpose; the civil engineering is closely connected with or facilitates the construction

of buildings; and the construction of the buildings will follow on closely after the completion of the civil engineering works.

The ruling will affect developers of properties of various kinds, including DIY house builders.

“The ruling will affect developers of properties of various kinds, including DIY house builders.”

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# PROPERTY INVESTORS FEEL THE PAIN

## INCREASING PAPERWORK PILES ON THE PRESSURE

For many property investors the biggest issue they face is how to keep on top of property management issues while developing their portfolios. With a growing portfolio comes a considerable amount of paperwork that has to be dealt with.

Property management software firm Property Portfolio Software has analysed three years' worth of feedback from its customers and identified a

number of trends to work out the top five issues facing landlords.

Investors say the biggest pain is the sheer amount of paperwork that has to be handled, to ensure rents are received and all bills are paid.

Other issues in the top five include keeping track of legal documentation and effectively managing tenants.

### THE TOP FIVE ISSUES IDENTIFIED ARE:

1. Increasing paperwork: keeping on top of bills and rental income
2. Staying legal: keeping track of safety certificates and legal documents
3. Good tenant management: making sure they get the information they need
4. Income tax management: knowing what is due when
5. Maintaining a positive cashflow: becoming harder with increasing property prices

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# INFLUENCING TENANT CHOICE

GENERAL LIFESTYLE ADVICE WILL ENCOURAGE MORE EFFICIENT USE OF ENERGY

Landlords operating within the private rented sector are being encouraged to start marketing their properties with Energy Performance Certificates (EPCs) before the mandatory date of 1 October 2008.

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The National Association of Registered Home Inspectors (NARHI) believes there is a number of benefits for those who act now, rather than waiting until the last possible moment. Firstly, they will be seen to be acting responsibly by making available better information to tenants on the energy efficiency of the rental and also current running costs. Secondly, general lifestyle advice within the recommendations will encourage more efficient use of energy by the incoming tenant. However, more importantly

by getting an EPC now they will avoid an anticipated rush before the deadline, which may lead to a shortage of energy assessors. Which in turn could cause delays in the tenancy starting, (as it is a requirement of the regulations that tenants must be provided with a copy of the EPC before signing the tenancy agreement). Delays could lead to a loss of rent and also break the continuity in the property being let.

The Energy Performance in Buildings Directive laid in parliament in March 2007 requires all buildings

to have in place an EPC before either sale or letting. The EPC under the terms of the directive will be valid for a period of ten years, therefore there is no reason why landlords should delay in providing them before the date. Within the owner occupied sector EPCs are already a key component of Home Information Packs (HIPs) and consumers are becoming more aware of their usefulness.

It is widely anticipated that EPCs will influence tenant choice in the future especially as the cost of energy continues to rise. Landlords of older homes may well find that implementing energy efficiency measures sooner rather than later will give them an edge in the market.

# PROPERTY MATTERS

INDUSTRY INTEGRAL IN THE BATTLE AGAINST CLIMATE CHANGE



An announcement during Budget 2008 confirmed that empty rate relief, as well as other tax relief schemes important for developers, would go ahead as planned.

The Treasury commented that the removal of empty rate relief on commercial buildings from 1 April meant property owners would pay almost £3bn in extra tax in the next three years.

The rate relief change will see empty office and retail property pay full business rates after a three-month grace period and industrial buildings given a six-month grace period, calculated retrospectively from 1 April.

Industrial property owners will also see the phased abolition of

capital allowances on industrial property, which could lead to a £675m tax increase over the next three years.

There was disappointment that lobbying for changes that would expand the Real Estate Investment Trust (REIT) regime were not mentioned in the Budget, although there was news in the form of confirmation about the changes to the authorised property investment fund regime, which will see authorised property funds given the same tax treatment as REITs.

A REIT is a property investment vehicle that benefits from certain tax advantages. A REIT is, by definition, a company that's listed on a regulated investment

exchange such as the London Stock Exchange and which owns income-producing property – either commercial or residential.

REITs were first launched in the UK on 1 January 2007 as a way of making it easier for investors to invest in UK commercial property, such as offices, high street shopping centres and out-of-town retail parks.

Mr Darling the chancellor in his Budget speech also confirmed that the property industry would be integral in the battle against climate change, with all commercial buildings to be zero-carbon by 2019, with a consultation on how to achieve this to be launched later this year.

# ANOMALY IN LEGISLATION CLOSED FOR INVESTORS

STAMP DUTY AVOIDANCE RULES TIGHTENED

A loophole allowing commercial property investors to avoid paying stamp duty on an estimated £1bn of deals was closed in the chancellor Alistair Darling's maiden Budget.

Rules on office sales using Islamic financing, structured to avoid paying interest in line with strict religious laws, were tightened as a growing number of investors escaped stamp

duty by taking advantage of an anomaly in legislation.

In a Sharia-compliant property deal, the bank buys the property from the seller, rather than simply providing finance for the buyer to own the property directly.

The person buying the property rents it back from the bank, eventually buying the property from the bank for a pre-arranged price higher than

the original sale. This is similar to paying a conventional mortgage, except rent is paid rather than interest, therefore complying with the Koran.

Commercial property investors were able to exploit changes to the stamp duty regime in 2005, which were designed to end the anomaly of homeowners who used this form of finance from paying stamp duty twice.

# ZERO-CARBON STANDARDS

PRESSURE PUT ON PROPERTY COMPANIES

Developers of office buildings and shopping centres will have to build them to zero-carbon standards by 2019.

The move marks a stepping up of the pressure on property companies, which are already compelled to produce entirely green homes by 2016.

The industry has been targeted by the government because it is responsible for about half of emissions in the UK.

But the new regulations on commercial buildings are likely to come with a heavy price for companies, given that it typically costs an extra 10 per cent or more to make a building carbon neutral.

The government estimates that the initiative could save up to 75m tonnes of carbon dioxide over the next 30 years. All new public buildings would have to be zero carbon a year earlier than private buildings from 2018 rather than 2019.

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# TAXING TIMES FOR PROPERTY

## PROPERTY RELATED TAX FACTS

### 'SCHEDULE A BUSINESS' PROFITS

Income tax is normally charged on rental and certain other income arising during the tax year, calculated as if the 'business' was a trade. This means that expenses are generally allowable if incurred 'wholly and exclusively' for business purposes (e.g. overdraft interest charged to the business account).

### LOSSES

Profits and losses from more than one property are generally pooled together, and if an overall rental business loss arises it is normally carried forward and set off against future Schedule A business profits. Losses relating to capital allowances may instead be offset against total income of the same (or next following) year.

### CAPITAL EXPENDITURE

Capital allowances cannot be claimed for expenditure on furniture, fixtures and fittings for use in dwelling houses. However, a 'wear and tear' allowance may be claimed instead, equal to 10 per cent of 'net rents' from furnished lettings (i.e. rents less payments that would normally be borne by the tenant, such as water rates). Alternatively, a 'renewals' basis may be claimed, i.e. no relief is given for the original cost of an asset, but a deduction is given for the cost of replacing it.

### TAX ON SCHEDULE A PROFITS

Profits from the Schedule A business are taxable as investment income. Income from furnished holiday lettings is also taxed as a Schedule

A business, although it is effectively treated as a trade for most tax purposes. Income tax on Schedule A business profits is generally collected under self-assessment. A 'non-resident landlord scheme' can apply to the UK rental income of non-resident landlords.

### RENT-A-ROOM RELIEF

A tax exemption is available on gross rents of up to a maximum of £4,250 (tax year 2008 - 2009) a year for individuals who let furnished accommodation in their only or main residence. If the property is jointly owned, the exemption is reduced to £2,125. If gross rents exceed £4,250 a year, the landlord may choose to pay tax on gross rents less expenses (as for a normal Schedule A business), or on the excess receipts over £4,250.

### REPAIRS TO LET PROPERTY

A deduction from Schedule A business profits may be claimed for replacing fixtures (e.g. central heating or a kitchen) with similar fixtures. However, expenditure on improved versions of those fixtures will generally be capital, and not an allowable deduction for income tax purposes. An exception is the replacement of single glazed windows with double glazed windows, as the expenditure will be regarded as allowable repairs.

### FURNISHED HOLIDAY LETTINGS

The commercial letting of furnished holiday accommodation in the UK is treated as a trade for various tax purposes. For example, losses from furnished holiday lettings can be set against the taxpayer's other income (as for a trading loss), and is not restricted to rental profits. Alternatively, furnished holiday lettings profits count as earnings for the purposes of determining the level of pension contributions the taxpayer can make.

### QUALIFYING AS FURNISHED HOLIDAY LETTINGS

Property must pass certain qualifying tests for furnished holiday lettings treatment to apply. The property must be let on a commercial basis with a view to making a profit. Holiday lettings are accommodation that is:

(a) available for commercial letting to the public generally as holiday accommodation for a total period of at least 140 days in a 12 month period;

(b) let as such for at least 70 days; and

(c) not normally let to the same person for more than 31 consecutive days during a 7-month period.

### OVERSEAS LANDLORDS

If UK property is let by a non-resident, basic rate tax is normally deducted at source from the net property income either by letting agents or (if there is no letting agent) by the tenant, and paid over to the HM Revenue and Customs (HMRC). However, a tenant paying rent of £100 a week or less is generally not required to deduct tax. In addition, tenants and lettings agents do not have to deduct tax at source if the non-resident landlord agrees with the HMRC to complete a Self-Assessment return (although gross payment does not mean that the rental income is tax-free).

### OVERSEAS PROPERTY LETTINGS

Income from property let abroad is calculated broadly in the same way as a Schedule A business in the UK (although note, for example, that the special 'furnished holiday lettings' tax rules are not applicable). Profits from overseas property lettings are taxable under Schedule D Case V.

“ A tax exemption is available on gross rents of up to a maximum of £4,250 (tax year 2008 - 2009) a year for individuals who let furnished accommodation in their only or main residence. ”

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# SELLING A PROPERTY

## TAX DOESN'T HAVE TO BE TAXING!

If you're selling a property that is your main home you won't have to pay tax on it provided you satisfy certain conditions. If you're selling a property that isn't your main home, it is likely that you may have to pay Capital Gains Tax (CGT).

### TAX ON THE SALE OR DISPOSAL OF YOUR MAIN HOME

#### YOU DO NOT HAVE TO PAY TAX AS LONG AS:

- you bought it, and made any expenditure on it, primarily for use as your home rather than with a view to making a profit.
- the property was your only home throughout the period you owned it (ignoring the last three years of ownership).
- you did actually use it as your home all the time that you owned it and, throughout that period, you did not use it for any purpose other than as a home for yourself, your family and no more than one lodger.
- the garden and area of grounds sold with it does not exceed 5,000 square metres (about one and a quarter acres) including the site of the house.
- If you are married or in a civil partnership and not separated you and your spouse or civil partner can have only one such residence between you.

- Even if all these conditions are not met, you may still be entitled to tax relief.

### TAX ON PROPERTY THAT'S NOT YOUR MAIN HOME

- You will normally have a chargeable gain if your property is worth more than you paid for it when you sell or dispose of it. However, the first £9,600 of your total taxable gains are tax free (tax year 2008-2009).

#### IT'S WORTH BEARING IN MIND THAT:

- when working out the chargeable gain you can deduct some of the costs of buying, selling and improving the property.
- if you have made a loss on the property, you may be able to set that off against other chargeable gains you may have.
- if you are living together you can transfer property to your husband, wife or civil partner without having to pay CGT, but if you give it or sell it cheaply to your children or to others, you may be liable to pay CGT.

### WHAT PAPERWORK DO YOU HAVE TO KEEP?

HM Revenue & Customs (HMRC) recommends that you keep the following information and documents relating to the property:

- contracts for the purchase or sale, lease or exchange of the property.
- any documentation that describes properties you acquired but did not buy yourself: for example, a gift or an inheritance.
- details of any property you have given away or put into a trust.
- copies of any valuations taken into account in your calculation of gains or losses.
- bills, invoices or other evidence of payment records such as bank statements and cheque stubs for costs you claim for the purchase, improvement or sale of the property.
- It would also be sensible to keep correspondence with buyers or sellers leading up to the sale of the property.



# RENT A ROOM SCHEME

## LETTING FURNISHED ROOMS PROVIDES RELIEF

If you already have a lodger or are thinking about letting furnished rooms in your home, you can receive up to £4,250 a year tax-free (£2,150 if letting jointly). This is known as the Rent a Room scheme.

The Rent a Room scheme is an optional exemption scheme that lets you receive a certain amount of tax-free 'gross' income (receipts before expenses) from renting furnished accommodation in your only or main home.

You can choose to take advantage of the scheme if you let furnished accommodation in your only or family home to a lodger. (Your only or family home is the one where you/your family live for most of the time. A lodger is someone who pays to live in your home, sometimes with meals provided, and who often shares the family rooms).

A lodger can occupy a single room or an entire floor of your home. However, the scheme does not apply if your home is converted into separate flats that you rent out. In this case you will need to declare your rental income to HM Revenue & Customs (HMRC) and pay tax in the normal way. Nor does the scheme apply if you let unfurnished accommodation in your home.

### DO YOU HAVE TO BE A HOME OWNER?

No. You can choose to take advantage of the Rent a Room scheme, regardless of whether you are a home owner or are renting your

home. However, if you are renting, you should check whether your lease allows you to take in a lodger.

If you're a mortgage payer it's best to check whether taking in a lodger is within your mortgage lender's and insurer's terms and conditions.

### IF YOU SHARE A HOME AND BOTH LET A ROOM OR ROOMS

If you are both letting furnished accommodation in your joint home, you will each be entitled to receive half of the allowance (up to £2,125 for the 2008-2009 tax year) without paying tax.

### IF YOU PROVIDE MEALS AND LAUNDRY SERVICES

If you charge for additional services, you will need to add the payments you receive to the rent, to work out the total receipts. If you get more than £4,250 a year in total, you will have to pay tax, even if the rent is less than that.

### THE ADVANTAGES AND DISADVANTAGES OF THE SCHEME

There are advantages and disadvantages of the scheme - it's simply a matter of working out what is best for you.

The principal point to bear in mind is that if you are in the Rent a Room scheme you can't claim any expenses relating to the letting (for example, wear and tear, insurance, repairs, heating and lighting).

To work out whether you will be better off joining the scheme or declaring all of your letting income and claiming expenses on your tax return you need to compare the following:

- how much income you are left with after your expenses.
- the amount of your receipts (rent plus any income from laundry services, meals, etc) over £4,250 or £2,125 if letting jointly (2008-2009 tax year).

If you opt out of the scheme (or simply do nothing) you will pay income tax on the first amount. If you opt into the scheme you will pay tax on the second amount.

### RENT A ROOM SCHEME AND RUNNING A BUSINESS

If you run a bed and breakfast business or a guest house, or provide catering and cleaning services as part of a letting business, the Rent a Room scheme can still apply to you. You will need to complete the relevant parts of

the self-employment pages of your Self Assessment tax return.

### HOW TO OPT IN OR OUT OF THE SCHEME

#### If you want to opt in

- if you don't normally receive a tax return and your receipts are below the tax-free thresholds for the scheme, the tax exemption is automatic so you don't need to do anything.
- if you wish to opt in and your receipts are above the tax-free threshold, you must tell your Tax Office - you can do this by completing a tax return and claiming the allowance.

#### If you want to opt out

- just complete a tax return within the usual deadline and declare the relevant lettings income and expenses on the property pages.

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## BUY-TO-LET MARKET CONTINUES TO GROW

### CREDIT CRUNCH LEADS TO INCREASED TENANT DEMAND

The buy-to-let sector of the UK property market has continued to grow despite widespread fears instilled by the credit crunch. This is according to research from the letting agent Your Move, reporting that there was a 21 per cent increase in the number of new lets that commenced during January and February this year, when compared to the same period a year earlier.

The organisation's research finds, not only has the credit crunch led to a pronounced increase in tenant demand, this trend is set to continue caused by volatile mortgage rates and squeezed credit contributing to an increased demand for rental accommodation.

The trend has been caused by buyers delaying purchases as they wait for market volatility to pass, and remaining in the rental sector, increasing demand.

Finance has also become harder to obtain as borrowers have tightened their lending criteria following the American sub-prime crisis unearthed last year.

Your Move has also registered a notable increase in the number of potential buyers looking to rent in the short term leaving landlords in a stronger position to expand their portfolios.

The research claims that with first-time buyers still needing a roof over their heads, buy-to-let is filling the gap. Not only do buyers have less access to credit, but those that can get it are being more cautious with the negative sentiment surrounding house prices.

The findings confirm those of the Council of Mortgage Lenders which finds buy-to-let lending totalled £24.1 billion in the second half of 2007, up from £21.2 billion in the first half of the year and £20.8 billion in the second half of 2006.



## UK'S PLANNING SYSTEM SET TO BECOME MORE STREAMLINED

### REMOVING RED TAPE WILL UNBLOCK APPLICATION BOTTLENECKS

The government announced a further review of the UK's planning system. The review 'Planning Applications: a faster and more responsive system' was launched by Communities Secretary Hazel Blears, Business Secretary John Hutton and Housing and Planning Minister Caroline Flint to examine what can disrupt the progress of an application from when it is submitted to when a decision is finally made.

Hutton said the slow progress of planning applications was one of the top five concerns for companies investing in the UK and there are 'still slow and cumbersome parts of the process' with delays occurring even after permission was granted.

The latest review will specifically look at reducing bottlenecks

and delays and identifying new technologies to speed up the system.

It will also try and remove unnecessary paperwork and examine how statutory consultees like Highways Agency, Environment Agency and Natural England could become involved sooner in the application process.

Blears said that "by removing red tape and unblocking the bottlenecks that are slowing down applications, we can create a planning system for people that makes it easier to apply, easier to be heard and easier to be Green."

A major overhaul of the planning system is already under way through the Planning Reform Bill which is in Parliament and proposes an independent infrastructure planning commission combined with a

single consent regime for projects of national significance such as power stations, reservoirs and airports. A further four bills are to be debated by MPs in Parliament.

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# COUNCIL TAX BILLS ON THE UP

## 4 PER CENT AVERAGE INCREASE FOR THIS FINANCIAL YEAR

The average council tax bill in England and Wales is set to increase by some 4 per cent over the 2008-2009 financial year.

According to the Department for Communities and Local Government (CLG) this represents the lowest increase in the tax for some 14 years.

Government figures show, while the average Band D increase in England will be 4 per cent, some 265 (58 per cent) authorities will have increases below the 4.1 per cent Retail Price Index (RPI).

Furthermore, 69 local authorities (15 per cent) will see increases below the 2.5 per cent Consumer Price Index (CPI), 18 (4

per cent) have no increase and three (0.66 per cent) are reducing council tax bills.

"We have delivered the first ever three year financial settlement for local government, and are moving over £5bn into budgets with no spending strings attached placing financial decisions increasingly in their own hands, and the vast majority have responded well," explained minister for local government, John Healey.

"Our commitment to take action combined with our 45 per cent above inflation increase in government grant for local services up to 2010-2011 has helped

bring down council tax rises to a fourteen year low, and most councils have contained their costs and budgeted prudently."

However, despite government optimism, council tax levels have been continued to increase in recent years, peaking with a 12.9 per cent jump in 2003-2004.

Just nine years ago, in 1999-2000, the average band D charge in England was just £798.

Following the increase the average bill for a band D house will increase from £1,321 to £1,374 a year.

“ The average council tax bill in England and Wales is set to increase by some 4 per cent over the 2008-2009 financial year. ”



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# GREEN PAPER WELCOMED

3 MILLION HOMES THE AMBITIOUS TARGET BY 2020

*The government's housing green paper has been welcomed as "great news for developers" by the United Trust Bank (UTB).*

However, the organisation which facilitates funding to property developers warns the government must follow through with planning reform to streamline the process in order to meet building commitments.

Recently communities secretary Hazel Blears announced a review into the planning process in the UK with a view reducing red tape and cutting bureaucratic restrictions.

The government is under immense pressure to deliver

the government will deliver this ambitious target.

"Over the decades criticism has been levied at the government for the complex planning system which often hinders rather than facilitates regeneration," said Roger Tidyman, managing director of UTB.

"Even worse, is the familiar and frustrating scenario created by the system, that sees developers, local authorities and communities become opponents instead of working together to create better neighbourhoods.

“ The government is under immense pressure to deliver more affordable housing to tackle the national shortfall, which has been one of the primary drivers of price increases in recent years. ”

more affordable housing to tackle the national shortfall, which has been one of the primary drivers of price increases in recent years.

Plans to tackle the issue, with the building of three million homes by 2020, were outlined last year with the housing green paper presenting plans of how

"Fortunately, it seems that the government is finally taking note and is taking positive steps to reshape the beleaguered planning process."

The UTB has singled out four points of the present green paper which are of greatest interest to the industry:

- Reintroduction of New Town powers, with local authorities and developers invited to submit plans for ten new eco-town schemes, each providing between 5,000 and 20,000 zero carbon rated homes.

- More New Growth Points and the extension of this programme to northern cities and towns.

- Planning incentives and enforced targets for local authorities to reduce obstacles to delivering housing and strengthening the requirements on developers to commence development once land has been purchased.

- Up to £8 billion programme to increase the supply of affordable housing, providing new opportunities for local authorities, housing associations and the private sector to build and manage new affordable housing.

"It is vital that the bill is passed and the government remain steadfast to its aims," continued Mr Tidyman.

"Major infrastructure decisions must be made without prejudice and in a timely fashion if the UK is to bring renewable sources of energy, waste facilities and transport infrastructure to support the major building programme; and fill the gap in the supply chain of affordable housing."

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# REDUCING THE RISKS FROM BUY-TO-LET

## SECURING PROPERTY-OWNERS LIABILITY INSURANCE IS ESSENTIAL

*The burgeoning numbers of buy-to-let investors moving into the UK property market may be unaware of their insurance needs, according to Leaseguard.*

The specialist risk consultant is warning home insurance alone may not be sufficient, explaining many insurers would refuse to pay out on a claim where it had not been disclosed to them the property was being let to tenants.

"The risks involved for a landlord can be substantial and can vary quite considerably from an owner occupying their own home," said Mairi Scott, managing director of Leaseguard.

In response, the organisation recommends landlords secure property-owners liability insurance (OLI) with a minimum value of at least £2 million.

Buy-to-let has seen a tremendous growth in popularity in the previous decade as property owners choose the investment as a future pension investment or rent out their existing home when they relocate to new jobs.

According to figures from the National Housing and Planning Advice Unit (NHPAU), the buy-to-let sector now has boomed in recent years, with an estimated 2.5 million homes in England being rented from more than half a million private landlords.

The market took off in the late 1990s, helped by the introduction of buy-to-let mortgages calculated on the anticipated rental income rather than the landlord's earnings.

"Property OLI is an essential requirement. Anyone with a legitimate reason to be on the premises could potentially raise an action against the landlord," continued Ms Scott.

"While it provides cover against action from the tenants, it is not restricted only to them but potentially a claim could be made against the landlord by other parties such as the postman or even the meter reader."

OLI also offers protection when a property cannot be occupied due to a major loss such as a fire, with a specialist landlord's policy generally providing cover for loss of rent.

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# ESTABLISHED INVESTORS CONTINUE TO REAP THE BENEFITS

## UNCERTAINTY IN THE HOUSING MARKET SEE RENTS RISE

*Demand for rented residential property in the UK continued to grow during the fourth quarter of 2007, according to The Royal Institution of Chartered Surveyors (RICS).*

However, the rate of growth in the market fell for the second consecutive quarter, and is now below the long run average for the sector.

RICS finds some 16 per cent more surveyors reported a rise in new tenant lettings than those reporting a fall – with demand increases strongest in the East and South-East.

The figure was down from 20 per cent in quarter three of 2007 with demand slowing dramatically in London and the North.

Private tenants led the, moderate, increase in demand for residential property.

According to RICS, some 82.1 per cent of all properties were rented to private individuals, the highest percentage since 2007.

Students (1.7 per cent), social tenants (5.7 per cent) and corporate demand (7.1 per cent) accounted for the remaining properties in the market.

However, new instructions to let property fell for the first time in the survey's history with 1 per cent more surveyors reporting a fall in new instructions than a rise.

"While banks remain cautious about offering loans, demand for rental property will continue to increase with many would-be-buyers unable to make the jump to home ownership," said RICS spokesperson Barry Hall.

Yet, even during a period of moderating prices in the wider market, landlords have continued to see rents and yields increase.

Some 27 per cent more surveyors reported an increase in rents than a fall during the final quarter of 2007. However, this was down from 31 per cent in the third quarter.

According to RICS, gross yields also increased at their fastest pace since quarter three of 2005, after more of less flat growth during the last two quarters.

"Established investors continue to reap the benefits of the current uncertainty in the housing market and have been enjoying the fruits of rising rents, but new investors are struggling to get the necessary finance to enjoy this buoyant sector."

“ According to RICS, some 82.1 per cent of all properties were rented to private individuals, the highest percentage since 2007. ”

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# GOVERNMENT REFORM

## VAT CUT ON BUILDING REPAIR AND MAINTENANCE WORK

The Federation of Master Builders (FMB) has welcomed government reforms of empty property rates, but argues measures must go further to ensure buildings come back into use.

New changes for empty properties came into force on April 1 this year, following announcements in the 2007 Budget, with the aim of encouraging the return of derelict and unused buildings to the market.

The changes will see an increase in the empty property rate from 50 to 100 per cent of the basic occupied business rate.

It is hoped this will encourage owners to re-let, re-develop or sell their properties to reduce the need for new development on Greenfield sites.

Other modifications will tackle deliberate dereliction by ensuring those who consciously render their property beyond economic repair continue to be liable for empty property rates.

"These changes to empty property rates will encourage owners to keep their premises in use, revitalising deprived areas as new businesses move in bringing much-needed employment opportunities, and making these towns and cities better places in which to live," explained local government minister, John Healey.

However, while welcoming the changes, the FMB contends cutting VAT on all building repair and maintenance work from the present rate of 17.5 per cent to 5 per cent would be expedient in ensuring disused properties were returned to operation.

"The FMB welcomes any moves by the government to bring empty buildings back into use. Bringing empty buildings back into beneficial use, in both town and country, is an essential part of sustainable development and improving people's quality of life," said Brian Berry, director of external affairs at the FMB.

However, the organisation which represents the interests of 13,000 UK builders argues that more needs to be done.

"The 17.5 per cent rate of VAT is an unacceptable brake on the regeneration and re-use of vacant and under-used buildings," continued Mr Berry.

"It favours new build over re-use, and therefore greater use of finite resources like greenfield land and minerals and higher carbon emissions. It actively encourages neglect and decay."

“ New changes for empty properties came into force on April 1 this year, following announcements in the 2007 Budget, with the aim of encouraging the return of derelict and unused buildings to the market. ”

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# CARRIED AWAY WITH DO IT YOURSELF

## FAILURE TO CORRECTLY ESTIMATE THE COST OF WORK PROVES EXPENSIVE

As many as one in four DIY projects are completed at a cost substantially over its original budget, according to the latest research from Halifax Home Insurance.

According to the organisation Britons should expect the unexpected when planning major works on their homes, as DIY projects run an average of £4,690 over budget.

As a result Brits spend around £10,320 on each project on their properties and around £4.7 billion more than they would initially have planned.

It appears homeowners get carried away when the work begins, with 53 per cent of DIY enthusiasts blaming upgrading to higher specification fixtures and fittings as the main cause of budget overspends.

A further 20 per cent revealed building work had unearthed further problems with a property which had to be rectified as a result.

A similar number admitted they had simply failed to correctly estimate the cost of the work.

Up to 9 per cent of improvers cited being overcharged by workmen as the main reason for exceeding budgets, while 4 per cent claimed

tradespeople had damaged their property.

"It's interesting to see that the major reason for spiralling costs is often due to homeowners adding extras to a project half way through. Clearly it is all too easy to get carried away with adding more expensive fixtures and fittings as the project unfolds," said Martyn Foulds, senior claims manager at Halifax Home Insurance.

"Before embarking on any home improvement project, homeowners should always check tradesmen have the appropriate accreditations and references for their work. It is also critical that homeowners check that all tradesmen they employ have adequate insurance to cover for any damage caused to their belongings."

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# THE BUDGET AT A GLANCE

## KEY ANNOUNCEMENTS

*UK growth forecast for 2008 has been reduced to between 1.75 per cent and 2.25 per cent, compared to previous forecasts of between 2 per cent and 2.5 per cent.*



- Growth forecasts for 2009 are now set at 2 per cent to 2.5 per cent, a reduction on 2.5 per cent to 3 per cent expectations. For 2010, growth is forecast at 2.5 per cent to 3 per cent.
- GDP will rise to between 2.25 per cent and 2.75 per cent in 2008. In 2009, GDP will rise to between 2.25 per cent and 2.75 per cent and in 2010 to between 2.25 per cent and 2.75 per cent.
- The inflation target for CPI will remain at 2 per cent.
- Borrowing will rise from £36 billion to £43 billion in 2008, equal to 2.9 per cent of national income. This will decline £23 billion, or 1.3 per cent, by 2012-2013.
- Borrowing will total £140 billion over the next four years.
- The current Budget deficit will be £10 billion in deficit in 2008-2009. It is forecast to decline to £4 billion in the following year and is expected to return to a surplus in 2010-2011 - a year later than was scheduled.
- UK debt is now 36.6 per cent of GDP. Debt is forecast to reach 38.5 per cent in 2008.
- Public sector investment will reach £33 billion next year.

### PUBLIC SPENDING

- Public spending in next three years will grow by 2.2 per cent.
- The government will spend £2 billion more on British troops in 2008 including £900 million on equipment.
- Schools to receive £200 million extra to raise GCSE results. A £30 million fund will be introduced to improve science studies.
- By April 2010, all long-term recipients of incapacity benefits will face work assessments.

### TAX AND NATIONAL INSURANCE

- Changes to income tax from April. Basic rate drops from 22 per cent to 20 per cent and the 10 per cent band is abolished.
- The upper earnings limit on national insurance contributions increased from £670 per week to £770 per week from April.
- Non-domicile tax scheme implemented from April, charging a fee to those in UK for more than seven years who wish to retain non-domicile status. There will be no further changes to the regime in this parliament or the next.
- Beer duty to increase by 4p per pint, wine up 14p a bottle, cider up 3p a bottle and spirits up 55p a bottle.
- Tobacco duty increased by 11p per packet of 20 cigarettes and 4p for five cigars.
- An escalator was introduced by the chancellor on alcohol duties which will see charges increase by 2 per cent above inflation for the next four years.

### ENVIRONMENT

- Government is to take advice on whether the carbon emissions reduction target can be raised to 80 per cent by 2050. Climate change levy increased in line with inflation from April.
- Reform of the North Sea fiscal regime to encourage investment.
- "Carbon Budgets" to be issued alongside regular Budgets from 2009.
- Some £26m funding next year for the Green Homes Service to help people reduce the carbon output of their homes. New non-domestic buildings to become "carbon neutral" by 2019.
- Charges on plastic bags may be introduced next year if shops fail to reduce their use on a voluntary basis.
- Revenue from plane duty to rise by 10 per cent.
- New measures at Heathrow and other airports to increase the use of biometric technology to speed up air travel.
- Energy companies to spend £150 million a year on energy tariffs.
- Five million customers on pre-payment meters to be given a fairer deal. Legislation will be introduced if necessary.

### MOTORISTS

- Fuel duty will rise by 0.5p per litre in 2010. A 2p increase in fuel duty is deferred until October this year.
- Reform to road tax planned for 2009. Vehicle tax rates will depend on vehicle emissions from 2010. Low-polluting cars will pay no tax for the first year from 2010.
- First year car tax on so-called "gas guzzler" vehicles will rise by £1,000.
- Carbon emissions from vehicles to be reduced from 130 grammes to 100 grammes per kilometre by 2020.
- Road pricing could reduce congestion and help environmental measures. The government will invite tenders to develop road pricing technology.

**EMPLOYMENT**

- Public sector employment has fallen in the past year. Private sector employment has risen to record levels.
- Some £60m to be spent over the next three years to encourage people to enter work and progress.

**EDUCATION**

- Government to spend £10m over the next five years to create a new science fund for teachers in secondary schools.
- There will be an increase in the amount of funding for adult training. Investment of £200m in under performing schools in an effort to improve GCSE grades by 2011.

**PROPERTY**

- Measures to keep mortgage rates low and stable to include encouraging banks to offer long-term fixed rate mortgages following the turbulence in world credit markets.
- Sites identified for 70,000 more new houses in addition to the 40,000 already under construction.
- Some £8bn to be made available for affordable housing.
- Key workers and first-time buyers to be able to borrow from new shared equity schemes to provide up to half of the price of new homes.
- Stamp duty on shared ownership homes will not be required until the occupant owns 80 per cent of the equity.
- £8 billion in funds to be committed to new, affordable and social housing.
- Teachers, nurses and first-time buyers can borrow money for shared equity schemes, and the minimum stake has been reduced from 75 per cent to 50 per cent.
- Labour is seeking views on how long-term fixed mortgages can help first-time buyers to get on the housing ladder.
- All new offices, shops and other commercial buildings are expected to be zero carbon by 2019.

**PENSIONS**

- Fuel benefits for the over 60s rises from £200 to £250 and for the over 80s rises from £300 to £400.

**TRANSPORT**

- Funding for the Crossrail project in London secured.
- Increased biometric measures to be introduced at Heathrow to reduce airport congestion.
- Government to set aside new funding to encourage road pricing schemes.
- Aviation duty to increase by 10 per cent in the second year of operation.

**WELFARE**

- Long-term recipients of sickness benefits to attend "work capability assessments" from April 2010.
- Government plans to reform council tax and housing benefit.
- New contract to help parents into work involving a commitment to find employment. Benefits for working families will be boosted.
- Government to invest an extra £125 million over three years to stop child poverty.
- From April 2009, child benefits will rise to £20 for the first child. An extra £50 above inflation will be added to child tax credit for low and middle-income families.
- Government will work with energy companies on a voluntary and statutory basis to help low-income households meet fuel bills. The government wants energy companies to triple spending on social tariffs to £150m.
- Winter fuel payment up to £250 from £200 for over 60s and up to £400 from £300 for the over 80s.

**SAVINGS**

- Government to launch the Saving Gateway, a cash saving scheme for those on lower incomes, will be introduced nationally, with the first accounts available to savers in 2010.
- To encourage people to save money, the government increased the ISA investment limit to £7,200 from April with the amount that can be held in cash rising to £3,600.

**DEFENCE**

- Chancellor expects to spend £2bn more on defence, including £900m on new equipment.

**BUSINESS AND CORPORATION TAX**

- New flat rate capital gains tax charge of 18 per cent for individuals introduced from April as previously announced, up from 10 per cent.
- Small firms loan guarantee scheme increased by £60m this year. Enterprise management incentive tax relief scheme increased from £100,000 to £120,000.
- Government launches £12.5m fund for female entrepreneurs.
- Target for small and medium-sized businesses to win 30 per cent of public sector contracts in the next five years.
- No further cut on corporation tax above the 2 per cent reduction to 28 per cent announced last year. Main corporation tax rate falls from 30 per cent to 28 per cent from April.
- Small business corporation tax rate to rise to 21 per cent in 2008-2009 and 22 per cent in the following year.
- Government to go ahead with plans to charge a levy, set at £30,000, for non-doms in the UK who will not be charged on offshore income.
- An extra £60 million has been committed to filling the UK "skills gap."
- Aims for small businesses to win 30 per cent of public sector business.
- Funds for loan guarantee scheme for small businesses will be increased by £60 million.
- Government will introduce a capital fund of £12.5m to encourage more female entrepreneurs.
- The threshold for businesses to account for VAT on a cash basis increases from £660,000 to £1.35 million from April.

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# COUNCIL OF MORTGAGE LENDERS' WELCOMES SOLUTION TO STRENGTHEN THE MORTGAGE FUNDING MARKET

## FURTHER CONSULTATION HOPED TO DELIVER EARLY PROGRESS

The Council of Mortgage Lenders' (CML) combined members together undertake around 98 per cent of all residential mortgage lending in the UK. Responding to the chancellor Alistair Darling's first Budget, the CML said that they welcomed the announcements of further consultation on market-led solutions to strengthen the mortgage funding market, and hoped for early progress with active participation by the Bank of England.

They also commented that they were pleased the government did not commit to particular "gold standard" measures, that could have been damaging. The working group designed to bring forward proposals will report to the chancellor in the summer with a view to proposals in the Pre-Budget report.

It is a similar story of welcome measures but a lack of apparent urgency on sale-and-leaseback schemes, where the Financial Services Authority and the Office of Fair Trading have been tasked

with undertaking a review of the operation of such schemes, but where there is no timescale for any measures to tighten up requirements on those operating in this sector.

The CML commented that the modest announcements relating to shared equity schemes for key worker first-time buyers, while potentially welcome are unlikely to provide any short-term relief to affordability and entry costs for first-time buyers to the housing market, where a stamp duty reprieve would have done so.

Also welcomed by the CML is the recognition of the problems facing the mortgage-backed securities market, and the need for market-led solutions. A spokesman commented that "we look forward to working with the Treasury to help ease mortgage funding pressures this year, and to look again at the ongoing market for low-cost home-ownership and long-term fixed rate mortgages for those niche groups of borrowers who would benefit from them."



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“ While 20 years ago lenders funded their mortgages from savers' deposits, the picture has changed as a result of securitisation. ”

# CHANCELLOR LOOKS TO UNITE MORTGAGE LENDERS AND INVESTORS

## AFFORDABLE 25-YEAR DEALS REQUIRED TO REOPEN FUNDING MARKETS

*In an attempt to ensure that "low and stable" mortgage rates are available to home buyers, the chancellor Alistair Darling is trying to reopen funding markets for mortgage lenders and persuade them to design "affordable" 25-year deals.*

Acknowledging that "uncertainty in the financial markets is having an impact on mortgage lenders here in the UK", Darling used his maiden Budget to create a working party uniting the Treasury, the Bank of England and the Financial Services Authority with mortgage lenders and investors.

This immediately prompted concern that the process would take too long, the working party is not due to report back until the Pre-Budget report in the autumn.

In a 95-page document accompanying the Budget speech, the government admitted the shut-down in the so-called securitisation markets that hurt Northern Rock had also affected other mortgage lenders by raising the cost of financing new mortgage deals.

While 20 years ago lenders funded their mortgages from savers' deposits, the picture has changed as a result of securitisation. This allows lenders to package

up mortgages and sell them on to other financial firms, in turn raising fresh finance for mortgage deals. This market has dried up in the wake of the US sub-prime credit crisis, and Darling is trying to free up financing again.

The government wants the industry to develop a "gold standard" market for mortgage-backed securities to give investors more confidence to buy the repackaged mortgages. Although there had been concern this would create a two-tier market, encouraging people borrowing higher loans to value or with poorer credit histories to pay more for their home loans.

Darling also said he wanted to see "more flexible and affordable long-term fixed-rate mortgages for 10, 20 or even 25 years" and has launched a consultation with the industry which will be concluded in time for the Pre-Budget report.

## PROFITING FROM PROPERTY

### CAPITAL GAINS TAX REFORM

One of the major announcements delivered by the chancellor Alistair Darling in his first Pre-Budget Report was the proposal to dramatically change Capital Gains Tax (CGT). Taper Relief is to be abolished and the benefits of indexation were cancelled from 6 April 2008. A flat CGT rate of 18 per cent will now apply and relief will be available for entrepreneurs selling their businesses with the first £1,000,000 of gain being taxed at 10 per cent.

No changes were proposed for private residences exemptions, lettings relief, business holdover or rollover relief, and losses brought forward are still available as before.

Indexation was introduced as a way of dealing with inflation to ensure that only gains above the rate of inflation were taxed. This was available from March 1982 to April 1998. Where assets were held for the full period, an uplift of up to 105 per cent was given, reducing the potential CGT considerably.

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# PROPERTY OWNERSHIP TOP PRIORITY FOR UNDER 30-YEAR-OLDS

THE DREAM MAY NOT BE TOTALLY UNREALISTIC

*Property ownership is still among the top priorities for those under 30-years-olds in the UK, according to research from Alliance & Leicester building society.*

Despite growing concerns over affordability for first-time buyers in the market, with as many 57 per cent of 18 to 29-year-olds citing ownership of a property as a realistic goal, by the time they reach 30.

"Reaching 30-years-old appears to be a landmark age for many people with it being set as a deadline for some major life events, like owning a property, getting married or starting a family," said Richard Taylor, head of mortgage products at Alliance & Leicester.

"Being a home owner for the first time is something most of us desire, preferably earlier in life. Even in an uncertain housing market we're seeing those under the age of 30 feeling confident and optimistic about the prospect of getting onto the property ladder before they say goodbye to their twenties."

The dream may not be totally unrealistic either, with the Council

of Mortgage Lenders (CML) finding earlier this year the average age of a first-time buyer is 29-years-old.

However, this figure has been consistently increasing for the last decade, and is up from 28 and in the late 1990's.

Further research from Alliance & Leicester supports the CML figures, finding two thirds (67 per cent) of its respondents bought their first home before they were 30.

Alliance & Leicester research also shows, before jumping onto the property ladder, renting is the option of choice for those living away from home.

Renting with a partner prior to owning a first property was seen as a natural progression for half (50 per cent) of 18 to 30-year-olds.

Getting married is also a key with half (49 per cent) of 20-somethings citing it as a desire before they reached 30. Having a

child is also high on the agenda, with two in five (42 per cent) wanting to start a family by the time they reach 30.

"Those aiming to get onto the property ladder need to do some background work and consider professional advice to establish exactly what they can afford to buy and to plan a budget in order to manage their new monthly mortgage payments," continued Mr Taylor.

"With the results of our research revealing many wanting to get married and start a family by the time they turn 30, the financial aspect of purchasing a first home becomes ever more critical.

"With all these goals being set by people in their twenties, it is increasingly important for those thinking about buying their first property to save for a deposit."

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# LETTING A PROPERTY FOR THE FIRST TIME

## PREPARE A PRE-TENANCY CHECKLIST

If you are letting a property for the first time it is crucial that you know your rights and obligations, health and safety regulations and the latest legislation on handling your tenant's deposit. A pre-tenancy checklist should help you make sure you've ticked all the right boxes before you take the next step in letting your property. These are some important issues to consider:

- Update your insurance to take into account that your property is going to be let.
- Get the requisite permission from your mortgage lender (if applicable).
- Obtain approval from the council's planning office (if you plan to make structural alterations to the property or change the property's use).
- Inform the council's Environmental Health Department if you plan on letting as a House in Multiple Occupation (HMO).
- Make sure all furniture and furnishings comply with the latest fire regulations.
- Ensure that all gas appliances and equipment have been serviced by a CORGI-registered engineer and that safety records are kept in a safe place.
- Make sure that all electrical wiring has been checked and safety approved by a qualified electrician.
- Inform the Council Tax department and utility suppliers that the property will be let (relevant if you plan on being a non-resident of a self-contained property).
- Obtain references to make sure that your tenant is suitable and has the ability to pay their rent, making sure they have rented a property without any major problems in the past (if this is applicable).
- Secure the deposit which is usually between one and two months' rent and held for the duration of the tenancy. Legislation was introduced to the Housing Act 2004 in April 2007 to help protect all parties with regard to the return of deposits.
- The inventory is one of the most important documents in the renting process and can often be the key in deciding how much of a deposit the tenant will get back at the end of the agreement.
- Since the late 1990's, the Assured Shorthold Tenancy agreement has been the most common form of tenancy agreement and sets out the duties of both tenant and landlord. There is no minimum term specified either, although the renter has the right to remain in the property for at least six months. If the fixed term is for three or more years, however, a deed must be drawn up and a solicitor employed to do so.

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