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## **MONEY BOX LIVE**

**Presenter: VINCENT DUGGLEBY**

**TRANSMISSION: 20<sup>th</sup> APRIL 2011 3.00-3.30 RADIO 4**

**DUGGLEBY:** We're talking about buy-to-let on this afternoon's programme and drawing attention to the new furnished letting rules for those with holiday properties or second homes which are rented out for part of the year. From April 6<sup>th</sup>, the costs of improving and maintaining a second home can only be charged against rental income rather than offset against your income as a whole, but in a year's time the minimum letting period will rise from 140 days to 210 days and your second home must be let for at least 105 days a year. The good news is that overseas properties are now included and it brings the system more into line with other types of buy-to-let where there's a clear distinction between those who have a portfolio of rented properties and are actively involved in running them as against someone with just a single house or a flat which may have been your main residence at some stage and which, incidentally, affects the tax treatment when you come to sell. In recent years many people bought second homes as an investment, hoping the rent would cover costs and the property would steadily increase in value. The homes were cheap and easy to come by. But since the downturn conditions have become far more difficult. Maybe you think now could be a good time to enter the market. Or if you want some general advice on the costs and consequences of holiday and other types of letting, you can call Money Box Live with your questions on 03700 100 444. With me Martin Sach, Chief Executive of the English Association of Self-Catering Operators; Chris Norris, Head of Policy at the National Landlords Association; Ray Boulger, Senior Technical Manager at the mortgage brokers John Charcol; and Mike Warburton, Tax Director at accountants Grant Thornton. 03700 100 444. Sarah, you're going to get us off to a general start, I

think, about the principles of both types of letting.

**SARAH:** Yes, hello. In fact it's quite opportunistic. We're just about to enter into ... We've found a house actually that we've rather taken to. It does happen to be in Wales, so I don't know if that makes a difference.

**DUGGLEBY:** Don't think so.

**SARAH:** Right. Well the house itself is broken up into three dwellings, so there's an upstairs floor flat and there's an annexe outside and the ground floor, which I was going to live in. And I wondered what the implications would be for me in terms of tax and also council tax implications?

**DUGGLEBY:** I think we'll have to leave council tax aside for the moment. But essentially what you've got then is a house - part of it which you could occupy yourself - and you're wondering which route to go: whether to go for long-term letting or using ...

**SARAH:** Yes.

**DUGGLEBY:** Where is this place?

**SARAH:** It's in West Wales.

**DUGGLEBY:** Whereabouts though?

**SARAH:** In St Davids.

**DUGGLEBY:** Ah, I know the place well. Yes, I'll kick off with Martin Sach. Now St. Davids is a pretty good area actually for holiday properties.

**SACH:** I'd say St Davids was a pretty good area for a holiday property and it sounds

like a place where you could set up a self-catering business. But you do need to think about running a business. You're quite some distance from St Davids, so the first thing to take into account is can you manage the place from Nottingham or will you be moving there?

**SARAH:** No, what I would do is I will move there.

**SACH:** Okay.

**SARAH:** I will go backwards and forwards, but the majority of my time will be spent living there.

**SACH:** That's going to make life a lot easier because it is a fairly high input business to be running a self-catering holiday complex as this is - a small complex - and you need to think about all the different business management aspects because you are going into running a business. You've got to think about everything from the marketing of the property - how you're going to find people to rent it from you. Think about health and safety, a very, very important subject. You've got to manage health and safety as you would with any business, and you've got to do your fire risk assessment for each of those flats and take responsibility for making sure that your customers are protected from fire.

**DUGGLEBY:** And of course you've got to remember that the letting period, the actual rental period ... What do you think, Martin? I mean would it be 6 months for summer letting?

**SACH:** For holiday letting? Oh the season? Well that's going to be dependent upon the area, but in an attractive place like St Davids, it's probably quite long; and you may well be lucky enough to get a short season at Christmas as well.

**DUGGLEBY:** Now alternatively, bringing in Chris, you could of course turn this just into a general buy-to-let, sorry general letting business, but of course it depends then

whether you've got enough people who want to rent throughout the year.

**SARAH:** *(over)* Well that's the other question that we had - whether or not it would be worth ...

**DUGGLEBY:** Okay, well Chris?

**NORRIS:** I don't think there's any right or wrong answer here. I mean, as Martin said, it sounds like that area, there's certainly scope to attract enough paying tenants to have a number of short-term holiday lets. It could perhaps be a simpler option to actually look at longer-term traditional residential lets because you do tend to have, well you certainly have less marketing costs. You'd need to be slightly less hands-on if you're looking at longer term let because of course you can start a tenancy that may last a year, 2 years, 3 years or even longer. And although it is a business and you certainly still have responsibilities to that tenant ...

**DUGGLEBY:** *(over)* And you'll certainly get less rent, won't you, for the year than you would month by month for the holiday?

**NORRIS:** You almost certainly would, but what you would gain is security. You wouldn't have the risk of finding new tenants on a weekly or monthly basis. You could rest fairly assured that you'll have a much longer term tenant.

**DUGGLEBY:** Okay, tax Mike?

**WARBURTON:** Yeah first of all, Sarah, I'm pleased to say that Wales does count as the European Union *(laughter)* so that will work. In fact the whole of the European Union now qualifies, which is the good news. It seems to me that what you've got here is potentially two or three separate properties. And we probably should look at it from that because you say you're thinking of living in one of them - presumably as sort of part-time?

**SARAH:** Yes.

**WARBURTON:** Very important. When you've got ...

**SARAH:** (*over*) They're not actually separated. I mean obviously there's private catering facilities in each annexe, but I believe that they're not separately metered or anything like that. Just the house has been broken up.

**WARBURTON:** Does each property have separate access from the outside?

**SARAH:** Yes, they do.

**WARBURTON:** Yeah well typically the tax authorities would treat that as three separate properties.

**SARAH:** Okay.

**WARBURTON:** And the one that you're going to be living in part of the time, what's very important for you - and this may sound strange - but what you ought to do is think about making a capital gains tax principal private residence election not on the property that you're about to buy but on the property that you're currently living in. The reason is not because you would lose in other respects the principal private residence relief on your current property; but as and when you come to sell your second property, you'll be able to make under current rules an election for a short period (perhaps a month) for the new property, and it'll give you 3 years capital gains exemption. A lot of people miss that. They don't know they should make that election, but it's very important.

**DUGGLEBY:** Right. And how are you going to finance this?

**SARAH:** Well in fact what we're doing is selling the house we've got and then purchasing one for my husband to work from. And then I'm going to go between the

two, purchase the other one.

**DUGGLEBY:** Yeah, but are you going to need to borrow any money to carry out any of the instructions?

**SARAH:** Well yes, the mortgage. We will be mortgaged.

**DUGGLEBY:** Okay. Right now Ray's going to come in here because it's a bit complicated, this, as to what you're going to mortgage and for how much.

**BOULGER:** Yes, it sounds as if the whole property is on one title ...

**SARAH:** Yeah.

**BOULGER:** ... and on that basis we're not talking about a buy-to-let mortgage and we're not talking about a residential mortgage because it's a bit of each. And generally lenders don't do that, so I think your only way forward is going to be either with a commercial mortgage, which will be expensive and you probably won't be able to borrow more than 75% of the purchase price; or possibly - and I don't know enough about your circumstances - if you're what a lender would class as a high net worth customer, then some of the private banks might help.

**SARAH:** Okay.

**DUGGLEBY:** Right, so lots to mull over there.

**SARAH:** Yes. Not as straightforward as we perhaps thought.

**DUGGLEBY:** No, it isn't. No, I'm afraid not. We'll move on. Jennifer in Esher, your call.

**JENNIFER:** Hello, hello.

**DUGGLEBY:** Yes, I'm here.

**JENNIFER:** We own a property, a little cottage. We've had it for about 11 years and we've used it for our own personal use. But we're just now wondering - we're now retired - whether to switch it for holiday lettings, and then it would become a business. And I'm just wondering at the moment if we sold it now, we would be liable for capital gains tax.

**DUGGLEBY:** Yes because it's a second home. It's never been your main home?

**JENNIFER:** No, it has never been our main.

**DUGGLEBY:** No. Well in that case, it is liable for capital gains tax and I'll bring Mike in in a moment. Again I'm going to ask you the question where is this cottage?

**JENNIFER:** Over in Herefordshire in the black and white villages. It's one of the little ...

**DUGGLEBY:** (*over*) Okay, so you've spent holidays there, have you, so you're familiar with the area obviously?

**JENNIFER:** Yes.

**DUGGLEBY:** Right. Martin, do you know that part of the world?

**SACH:** I don't know the area very well, but I know that it is an area where there's a lot of holiday letting going on.

**DUGGLEBY:** But a cottage is generally an attractive proposition.

**SACH:** Absolutely, very much an attractive part of England, yes. But the first thing that struck me is that Jennifer said that she had retired, and if you want to retire going

into a holiday cottage letting business is quite a different thing from retirement because there is a lot of work to do. You've got to be responsible for running this business, marketing it, managing it, changing the sheets on a Saturday possibly ...

**DUGGLEBY:** *(over)* Or getting someone to do it.

**SACH:** Or getting someone else to do it. But if you're getting someone else to do it, you've got to monitor that and maintain quality and decorations and repairs and maintenance, and the list goes on and on and on.

**DUGGLEBY:** We do see though that there are companies involved in sort of cottage lettings.

**SACH:** Yes.

**DUGGLEBY:** It's a specialist business. Will they take it all off you?

**SACH:** Yes, you can find sometimes - and it's not necessarily available in every part of the country - but there are some companies where you can outsource part of your business management. And certainly the major thing that people outsource is the marketing, and there are many agents around who can take on the marketing for you and find people to be your customers. And those agents will charge you a fair proportion of what you earn. Typically something like 20% of your total income will go into the pockets of the agent, but in return they'll give you a very valuable marketing service because they'll take all that burden of running a website and marketing and sales and so on from you.

**DUGGLEBY:** Mike, tax now. It sounded to me as though there's no election on those.

**WARBURTON:** Well, yes. Can I ask you, can you remember when you bought the property or it came to you, you made any election with the tax authorities as to ...

**JENNIFER:** Didn't, we didn't.

**WARBURTON:** No.

**JENNIFER:** What I'm just wondering is if it becomes a business, whether it then becomes free of inheritance tax? Because we would be liable for inheritance tax and I'm just wondering whether the capital value of that cottage would be then, if it was let and continued to be let as a business, whether that would be classed as a business and therefore not liable for inheritance tax?

**WARBURTON:** I understand the question. And the position here is slightly confusing because the special rules that we've been discussing for furnished holiday accommodation, which apply essentially for capital gains reasons, don't necessarily apply for inheritance tax purposes. And typically they won't because if you satisfy the days that you let for capital gains purposes, that's very specific. But the inheritance tax rules require it to be a business in which you have a pretty significant involvement. It's not just going to be changing the sheets on a Saturday, as we talked about. It normally requires you to provide entertaining facilities, bed and breakfast, something of that nature, which is much more intensive than what I think you're currently envisaging. It is possible and I have had cases where it has been successful. There are some test cases on this. It normally involves caravan parks actually. That seems to be the borderline. As far as capital gains is concerned though, I mean you raise a very interesting point here because one of the advantages of furnished holiday accommodation is from a capital gains point of view, it's treated like a business, and that means you can qualify for this relatively new relief called entrepreneur relief, which gives you effectively a 10% tax rate when you sell rather than basically 18% or potentially 28% on it. So it could be very helpful from a capital gains point of view. Much more difficult from an inheritance tax point of view.

**JENNIFER:** Yes, that's quite useful.

**DUGGLEBY:** Alright, I'm glad to be of help. Now then a quick email in from Philip in London. He says, 'I've got a second property. I don't officially rent it out. It's an

unofficial arrangement with a friend living there who pays no rent but covers the bills. Do I need to sort of look after things like gas certification? Am I really a landlord or not?' I think that's one for you, Chris.

**NORRIS:** I think the short answer is you are a landlord. You're responsible for that property. You're responsible to an extent for the well-being of your friend living there. And certainly if for nothing but to avoid all doubt and to make sure your friend's safe in the property, you do need to make sure that you have it gas safe registered.

**DUGGLEBY:** And probably would it be better to put it on a shorthold assured tenancy even though the friend's sort of doing it on a sort of grace and favour basis almost by paying the bills?

**NORRIS:** Even if it is a friend, you never know what will happen 6, 12 months down the line.

**DUGGLEBY:** Somebody just mentioned deposit protection as well. There's all sorts of things that come into play, legal requirements.

**NORRIS:** Quite right. If you have taken a deposit from that friend, then you do have a legal requirement.

**DUGGLEBY:** Even if he's paying no rent.

**NORRIS:** Exactly.

**WARBURTON:** Even if there's no law, whatever the law is, you wouldn't want to wake up one morning and find your friend had suffered because there's carbon monoxide in the building or something like this. I think the way to look at it is play safe. You've always got to play safe.

**DUGGLEBY:** Play safe. Okay Alan in Derby, your call. Hello Alan?

**ALAN:** Good afternoon.

**DUGGLEBY:** Yes hello.

**ALAN:** Hello.

**DUGGLEBY:** Yuh, go on Alan.

**ALAN:** My situation is I'm in the process of starting a new business, which is not property related, so therefore I have no income. I do have enough of my own capital to see me through for the next couple of years with regard to the business. However, I also have a property which is bought and paid for, no mortgage, and I'm looking to buy a buy-to-let and wanted to know if it's possible to be able to take some money from my main residence and use it as a deposit for a buy-to-let?

**DUGGLEBY:** Can I just check with you? Presumably your idea is to use this buy-to-let property to get some rental income to tide you over for a couple of years. And what would your intention be after that - to expand your portfolio or just to sell it?

**ALAN:** *(over)* Ideally. I'm looking at it more for a sort of retirement issue, which would be in about 15 years.

**DUGGLEBY:** Okay. Well just before I bring in Ray Boulger, a brief word from you, Chris. I mean this is typical where you start, just buy a property and just gradually build up a bit.

**NORRIS:** This does sound fairly typical. If you've got equity in your residence, you can release that as a deposit for instance for a buy-to-let property. At the moment with house prices being somewhat depressed, it may be a good time to start.

**DUGGLEBY:** Okay, Chris. Sorry, Ray, I should say.

**BOULGER:** I think from the mortgage point of view, Alan's actually doing this at absolutely the wrong time. Lenders are going to want to know that you've got an income, and if you're just about to start up a business then you've clearly got no track record and therefore you can't prove an income. It's the sort of mortgage that you could have probably done pre-credit crunch, but now would be very difficult. You'll really need to build up a track record and demonstrate some income if you want to get a mortgage on a residential basis. And even if you want to get a mortgage on a buy-to-let basis, most lenders will expect you to have a minimum income - typically £25,000. So whilst there clearly will be scope at some stage to raise money on that property, I think at this point in time, it would be very difficult.

**ALAN:** Right, thank you very much.

**DUGGLEBY:** Okay. I think we've put Alan off pretty comprehensively. Right, see what we can do for Sue in Kettering. Hello Sue.

**SUE:** Hi. Good afternoon to you. My question concerns taxation. I bought a cottage last year as a buy-to-let investment, long-term. In the first year my costs will exceed my incomings. So I'm fairly new to this, so I kind of guess that my tax will be minimal if anything. But in the second year, my incomings will be more than my outgoings. So I was wondering whether I could increase my mortgage repayments to pay off the capital? And if that's the case, would that be able to decrease my tax liability?

**DUGGLEBY:** Yeah, I'd like to unpick this one a bit, Sue. You bought this cottage. Where is it?

**SUE:** It's in Northampton.

**DUGGLEBY:** Right. So is it a holiday let or is it ...

**SUE:** No, it's a long-term let.

**DUGGLEBY:** It's a long-term let. And you live in Norhtampton as well, so you're able to keep an eye on it?

**SUE:** Yes.

**DUGGLEBY:** And you're regarding this obviously as being a good investment?

**SUE:** Yes.

**DUGGLEBY:** But initially you're not making a profit because the mortgage costs are too high?

**SUE:** Well no, because of all the costs that are associated with buying the property, etcetera.

**DUGGLEBY:** All the costs. Alright, okay. Well the first thing, Mike, is we made a loss in the first year.

**WARBURTON:** Yeah, you made a loss in the first year. I think it's probably important to identify the sort of costs that you've had on the property to begin with. I guess quite a lot of that is, what, property refurbishment?

**SUE:** Yes.

**WARBURTON:** Have you had some big-scale stuff?

**SUE:** It's just general maintenance required to ensure that it's safe and okay for the tenants and the legal you know costs.

**WARBURTON:** Yes. I mean sometimes what HMRC will say is that if you've had a

big scale refurbishment, they'll sometimes argue that that's capital and goes ultimately towards your capital gains calculation rather than running expenditure. Hopefully they'll allow it as repairs. And if it's treated as repairs and you've made a loss, the answer is that you won't have any tax in respect of that year. You can then carry that loss forward and you can set that loss against the profits from future years.

**SUE:** Okay, great.

**WARBURTON:** And that's indefinite. You can carry it forward as long as necessary.

**DUGGLEBY:** It's an interesting point here, Chris, about the costs sometimes of getting a property into the right state for letting. I mean there's no magic about this. You've got to be very sort of down to earth - you know enough but not too much; and don't spend too much, but make sure it's all sort of safe and sound.

**NORRIS:** You really do need to plan ahead. I wish I could say this was uncommon, but to make a loss in that first year or even perhaps your first couple of years is quite common when setting out as a portfolio landlord. There are lots of costs to take into account when buying property, there's lots of research that needs to be done. And one thing I would say when we're talking about making a profit or loss, it's very, very worthwhile to factor in void periods - to factor in periods between tenants. I mean we would normally say to our members at the NLA that you should factor in about a 7% void for any given year, which is almost a month.

**DUGGLEBY:** What's your experience of this, Martin?

**SACH:** Well I think the point's worth making for self-catering holiday properties that people's expectations are very high and that you do very much in the same way, but perhaps even more so, have to think about putting quite a lot of energy and effort and maybe money into bringing the property up to a really good standard.

**DUGGLEBY:** So good, comfortable beds, good linen?

**SACH:** Yeah, the days of slumming it are well long passed, yes.

**DUGGLEBY:** But there again that's going to be quite a lot of capital expenditure up front. But again Mike, of course, if you buy a set of really nice new towels, that's all allowable?

**WARBURTON:** Well it depends whether what you're doing is ... I think about kitchens normally.

**DUGGLEBY:** Alright, okay.

**WARBURTON:** If you're letting to students - and I have let to students, so I know what it's like - you tend to have to repair the kitchen doors at the end of each season. That's repairs. But if you put in a big, new kitchen and what was there before was actually pretty cheap, quick assembly stuff, then that will be something that's capital expenditure and you won't be able to claim that as repairs.

**DUGGLEBY:** Right and a question here for you, Ray. What is the current rate for a buy-to-let mortgage now? Is there any sort of benchmark figure which people can use for comparing one with another?

**BOULGER:** Well as with residential mortgages, a tracker rate or a variable rate of any sort will be cheaper than a fixed rate. But to give you a guide: if you want a 5 year fix and if you don't want to borrow more than 70% of the value of the property, the best deal on the market is at 5.5%. Rule of thumb, you can reckon to pay about 1.5% more than an equivalent residential mortgage once you factor in the fees, which often are higher on a buy-to-let mortgage. Tracker rates are cheaper than that. I would definitely advise anybody to try to keep the maximum borrowing down to 70% or at the outside 75% because once you go above that, there's not much choice and the rates go up quite a bit.

**DUGGLEBY:** Yeah because I mean bearing in mind in general terms anybody

looking at buying a buy-to-let property now has got to think in terms of the return - that's the rental income they get - versus possibly rising mortgage rates. I mean you've got to be a bit careful with your sums.

**BOULGER:** And one of the questions Sue was asking was whether she could offset paying some of the mortgage back against the tax.

**SUE:** That's right - that was going to be, yes exactly.

**BOULGER:** And you can't do that, Sue.

**SUE:** You can't.

**BOULGER:** What you could do, however, is perhaps increase your mortgage because you can offset all the interest payments ...

**SUE:** Ah!

**BOULGER:** ... and the amount of interest you can offset will be limited to the interest on an amount that you pay for the property. So clearly your mortgage is less than 100% of the purchase price and you obviously wouldn't get a mortgage for 100% of the current value, but if it's feasible to increase your mortgage then the extra interest payments would be offsettable. What you obviously do need to think about is what you're going to do with that money. It's all very well to mitigate your tax, but you have to have something useful to do with the money you're going to raise.

**DUGGLEBY:** *(to Mike Warburton?)* Quick, quick, come on.

**WARBURTON:** I'd always advise people if you're going into property letting to open up a separate bank account for your property letting business and all your rental income goes into it, all your expenditure goes out of it. Everything goes through that bank account because you're going to have to fill in a tax return and it's much easier

if it's just done through one set. Unpicking your personal account afterwards is no fun.

**DUGGLEBY:** Okay. Claude in Leytonstone, you've got the next call.

**CLAUDE:** Yes hi, thank you. I live outside ... Well I have a house in Leytonstone for which I have a property management you know running affairs. And I have a tenant in there now who I like very much, but I'm not really happy with the property manager and I want to either switch property managers or do away with them altogether and just deal with the tenant directly. But they are telling me that I will be under sort of an indefinite obligation to pay them a fee which is equivalent to about the amount of rent every year indefinitely.

**DUGGLEBY:** Okay, well I'll get Chris Norris because I'm sure this is something that you've come across. What's the legal position on that?

**CLAUDE:** (*over*) It seems unreasonable.

**NORRIS:** It is. Well the thing landlords always have to consider when going into business with a letting and management agency is to read the terms and conditions very, very carefully and vote with your feet effectively.

**DUGGLEBY:** But you can't be locked indefinitely into a contract, surely?

**CLAUDE:** Exactly.

**NORRIS:** Any reasonable letting agent should have a release clause in the terms and conditions. If not, I'm not entirely certain of the legal circumstances, but it could be deemed to be an unfair contract if it hasn't got a release clause.

**CLAUDE:** Who would I take it to to assess the case?

**DUGGLEBY:** Well you'd have to go to a solicitor and get them to check the details of the actual agreement you've got.

**NORRIS:** In the first instance have a look at that agreement because it may be fairly clear in there. The first line from a letting agent will always be "Well you can't leave us" because it's in their interest to keep that renewal fee.

**CLAUDE:** It's not clear and it's been news to me, I must say.

**DUGGLEBY:** I don't think we'd be able to .. You know without reading it carefully ...

**CLAUDE:** (*over*) No, I understand that.

**DUGGLEBY:** ... without legal advice, we couldn't answer that. But just bringing in Martin briefly, I mean I imagine that people with holiday lettings sometimes want to change horses, change ... Is it relatively easy then?

**SACH:** Yes, almost exactly the same thing applies. Never sign a contract without reading it. That's just a golden rule really.

**CLAUDE:** Well this is a major agency. You know this is a major name in property management.

**DUGGLEBY:** Well we won't name them ...

**CLAUDE:** No, of course.

**SACH:** All the same, you do need to read what it actually says in the agreement that you signed.

**CLAUDE:** Can I ask a quick yes or no question, please? My tenant told me that they

actually charge her a fee every year to renew.

**DUGGLEBY:** *(over)* Yeah for renewing it. Yes, that is another issue that's come up.

**CLAUDE:** Is that legal?

**NORRIS:** It's perfectly legal to charge the tenant an admin fee. It's not particularly good practice, but it is perfectly legal.

**DUGGLEBY:** Okay and we move onto Alec in North Yorkshire. Alec?

**ALEC:** Hello. We have two properties. We have a family home in London and a holiday home in North Yorkshire, which we've never let. We've now retired and we're actually now spending the majority of time at our holiday home, and our adult children have moved into the family home and are essentially paying us rent to meet the costs of the mortgage and outgoings.

**DUGGLEBY:** I imagine they're really actually contributing to the outgoings. They're not really paying you rent, are they?

**ALEC:** Right, they're contributing. I pay all the bills and they pay me.

**DUGGLEBY:** They reimburse you for the bills, yes.

**ALEC:** Yes. So the question is what's my tax situation in relation to that income from the family home?

**DUGGLEBY:** Okay, well I'm going to back to one of the earlier questions we had, and that is did you make an election as to which of these properties was your main home when you acquired the second property?

**ALEC:** We didn't, but we've written to HMRC to say that the family home is still our

main property.

**DUGGLEBY:** Is that okay?

**WARBURTON:** Well unfortunately the problem is that the time limit for making an election is 2 years from buying the second property, and my experience is that HMRC are pretty rigid on that. And sadly most people that I speak to aren't aware of this. It's not often featured, which is why it's great to be able to do so on this programme. If you're buying a second property - I know it's too late for you, but anybody else listening - consider making an election. Not for the second property, but on your main residence. In your particular circumstances, let's look at it first of all from an income tax point of view. Most people who in your circumstances let their children live in their original property that you've got in London, they wouldn't formally charge them rent. You might both contribute to the outgoings. Normally you wouldn't formally charge for it. If you do charge them rent, then that is taxable income and you need to declare it as such. Albeit that I guess that if all they're doing is paying you for the costs and the mortgage interest, etcetera, it probably wouldn't result in a taxable profit, but it's something you do need to be aware of. Simply because it's a family arrangement doesn't necessarily stop it being taxable.

**DUGGLEBY:** Would you think, Mike, that it might be worth giving the children a direct interest in the house - giving them a small section of it, so they actually own part of it?

**WARBURTON:** I think possibly in a situation like this, if you have joint ownership ... If they're living in the property, it may actually make sense to have a joint ownership arrangement. You can do it actually by declaration of trust and that will give a degree of principal private residence. It solves a lot of the problems that we're now discussing.

**DUGGLEBY:** And also when the word 'tenant' comes up, as Chris has been saying, the word 'tenant' just worries me even if it's children. I mean children have rights and I mean I'd just hate to think what would happen if something happened to the children

in the house of their parents which they were occupying albeit under an informal basis. Maybe I'm being unduly alarmist.

**NORRIS:** There are always responsibilities when it comes to a landlord/tenant relationship.

**ALEC:** (*over*) I mean we do ... Sorry.

**DUGGLEBY:** This is the argument for possibly putting their names on the deeds, yeah.

**WARBURTON:** Yes. There's also actually an inheritance tax issue here because at the moment it seems to me that both properties are in your estate for inheritance tax purposes. And even if you were to give part of the property to your children or they'd take a part share in it, you've got to be careful about the inheritance tax position because of what's called the reservation of benefit rules. But it's often possible to structure it in a way where you both use the property in the same proportion as your ownership and get around the problem that way.

**DUGGLEBY:** We've just got time for one more email. And this is from Patricia and she says we sold up in the UK last year, moved to a house we already owned in France. We're now considering buying a house in the South West to use on our visits to the UK and maybe we could let it out to holidaymakers during the season. Is this a good idea and how would it affect our tax position, panel? We've got about 45 seconds. It seems as though they're sort of putting the clock back. But quickly with you, Martin Sach.

**SACH:** Well I think, as with any buy-to-let, think about the business questions and is this going to be a proposition.

**DUGGLEBY:** Do you really want to move from France to England to keep an eye on it?

**SACH:** Can you keep an eye on it? Obviously you're going to need an agent here to do the management possibly or certainly the marketing. You need to see whether you can make this a viable business.

**DUGGLEBY:** And obviously on a longer term basis - by perhaps having a shorthold assured tenancy, Chris - I mean, yes, I suppose you could do it?

**NORRIS:** As Martin said though, think very, very carefully about the management.

**WARBURTON:** And if you're buying another property, it gives you the chance to make that election again ...

**DUGGLEBY:** Ah!

**WARBURTON:** ... because even if you miss the first time, you've got another go, another 2 years ...

**DUGGLEBY:** *(over)* But in the end, it will depend ultimately on whether it's a good investment and who knows.

**WARBURTON:** Yes, of course.

**DUGGLEBY:** Right panel, thanks very much indeed. That's Martin Sach, Chief Executive of the English Association of Self-Catering Operators; Chris Norris from the National Landlords Association; Ray Boulger from mortgage brokers John Charcol; and Mike Warburton from accountants Grant Thornton. As usual there's lots more information and links on the website, [bbc.co.uk/moneybox](http://bbc.co.uk/moneybox), and you can listen again, read a transcript of the programme or sign up for a podcast. Paul Lewis will be here on Saturday at noon with the next edition of Money Box. I'll be back same time next Wednesday afternoon to take more of your calls on Money Box Live. And interestingly we're doing a new subject. It's called Financing a Wedding.

