

This manual is a guide for landlords and agents with some experience. Although it will also be useful for the inexperienced, every reader should be aware that the laws and procedures applicable to housing are complex and this guide is not a substitute for taking professional advice from a suitably experienced person before making important decisions.

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## Acknowledgements

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# 1. Pre-Tenancy

## 1.1 Investing in a Property

Investing in a private rented property can be achieved in a variety of ways and sometimes landlords inherit a property that they then turn over to renting. This guide is not a financial guide to housing investment but there are a few key points worth highlighting.

It is important that an investor, before investing in a property, undertakes a proper business plan that takes into account:

- the value of the property and the loan to asset ratio of any loan finance obtained;
- the cost of any loan finance and over what period that loan finance has to be repaid;
- the level of interest being paid on the loan taking into account that interest rates are likely to fluctuate over the duration of the loan;
- the level of investment needed to renovate the property and meet with statutory standards;
- the cost of any management or specialist services to get the property up to standard and into the lettings market, letting expenses, advertising and professional fees;
- the level of rent to be charged;
- the cost of ongoing services to keep the property in good condition: repairs, gas and electrical servicing, annual maintenance, cleaning, garden maintenance and so on;
- the ongoing investment that will be required to maintain the fixtures, fittings, decor and services (boiler, white goods, grey goods and furnishings - if let furnished) in good condition;
- who will be responsible for the property while the landlord is away on holiday, business or is unavailable because of illness.

Whilst property investment thrives on optimism, it is also important to be realistic about the level of rent that can be charged and to allow for some period when the property might be unoccupied (voids) between lets and to make some allowance for any bad debts. Every landlord should allow not less than about a seven per cent void rate for vacancies and turnaround times between occupants

Landlords basing their business plans on low interest rates, short and risky variable loan rates, charging high rents and not allowing enough funding to keep the property in top-top condition, frequently come unstuck.

It is also important to consider cash flow. Just like buying a house for owner occupation, most expenditure takes place at the beginning and, as the loan progresses, repayments become less onerous. Consider what might happen if outgoings continue but rent is not forthcoming or it is necessary to fund an unexpectedly large repair. Is the cash available to keep the business or investment running?

Investors thinking about purchasing a property to let, should consider the financial and management implications very carefully. Some other matters

to be considered are:

- the demand for rented accommodation in the area in which the house is located. In many areas, including popular inner city locations, there may already be an oversupply of rented accommodation and it could be difficult to find suitable tenants;
- the sort of market that the property is intended to serve. Each has its own characteristics, benefits and problems [*see section 1.1.1*];
- the potential investment return. It is important to be realistic about the returns that can be achieved. When investing in property, it is more realistic to expect lower short-term gains and higher long-term profits;
- remember that although over time the capital value of property tends to rise, in the shorter term property prices can go down as well as up and that capital gains made over time on a property that has appreciated in value are taxable [*see section 1.6.3*];
- the level of experience in managing property and tenancies required. The knowledge and skills needed to be a landlord are considerable and the penalties for getting it wrong can be serious.

### **1.1.1 Private Rented Sector Markets and the Relevant Standards**

When deciding to let a property it is important to consider what market that property is entering. Broadly speaking there are five private rented sector markets:

- renting to those on benefits;
- renting to students;
- renting to working tenants;
- renting to professionals;
- luxury lets or corporate lets at the higher end of the market.

If the property is already in ownership its type and location may already determine the market to be aimed for. If a potential landlord is looking to invest in a property that decision may be influenced by the location and type of property that can be afforded. Different markets will command different rent levels and will require different standards and types of letting and management. Some of the issues that might be considered are:

- professionals will insist on high standards and will expect showers and sometimes en-suite facilities;
- housing benefit renters, whilst commanding a lower rent, are likely to be more stable tenants;
- young professionals tend to be more mobile and this may lead to higher voids and increased re-letting expenses;
- renting to sharers or students results in higher occupancy rates which can maximise rental income, however the wear and tear on a property will be substantially higher with a greater density of occupation. Many students may be

living away from home for the first time and may not fully understand their responsibilities towards their property. Renting to sharers and students is also likely to bring with it the need to meet regulatory standards that have been set by the Government in respect of Houses in Multiple Occupation (HMO) and property licensing. These additional regulatory standards acknowledge and seek to address the high risks associated with HMOs;

- student lets may not extend for a full year;
- all tenants will expect a high level of customer care from landlords and expectations generally rise in line with the amount of rent paid.

If a mortgaged property, or a room within it, is to be let then it is necessary to obtain permission from the mortgage lender. If the property is subject to a long lease, permission may also be required from the freeholder before renting, and there may be a cost associated with this. This will be determined by the terms of the lease. Where these are not clear it is advisable to seek assistance from a lawyer or the local housing advice service.

## **1.2 Letting options - Means of Managing Property**

There are a number of options that can be considered for managing a property, depending on the owner's own experience, skills and the amount of time that is available to be spent on the management process. Each of the options given below have advantages and disadvantages but careful consideration should be given to ascertain which option is best to meet any particular circumstances:

### **1.2.1 Self-Managing Landlords**

This option is for landlords who are confident that they know their responsibilities and what constitutes best practice in managing properties. This option saves the cost of an agent, but can require a considerable investment in time. Self-management may not be suitable for landlords who do not live close to their properties or who are away from home for significant periods of time.

If problems arise, self-managing landlords might require advice from a professional adviser such as a lawyer or accountant, which will come at a cost. Landlord associations are a good source of advice and assistance and can provide much of the information that a self-managing landlord requires.

Self-managing landlords also have to promote their own properties and this may entail paying a fee for advertising properties.

### **1.2.2 Use of Letting and Managing agents**

If help is required to manage the property, there are at least three potential options:

#### ***a) Letting Only***

This is where an agent markets the property, advises on rent levels, finds a tenant, undertakes reference checks (if required) provides a tenancy agreement and moves the tenant in.

The agent charges the landlord a one-off fee for this. Fees vary widely and it is important to compare the local market rates for doing this before making a selection. The agent may also charge the tenant an administration fee.

Landlords using a letting agent need to agree if they wish to charge a deposit, what it is for, how much the deposit is to be and if the agent is to collect it. Any deposit taken for an Assured Shorthold Tenancy (AST) [see section 3.1.2] must be protected in one of the three government approved tenancy deposit protection (TDP) schemes. It is the landlord's legal responsibility to ensure their tenants receive the relevant scheme's terms and conditions (known as the prescribed information) and that the tenant also receives a notification from the scheme provider which proves that the deposit is protected by that scheme.

Once the tenancy has started, the letting agent's job is done and the landlord then undertakes the on-going management of the property.

#### ***b) Letting and Rent Collection***

This is where the agent finds a tenant (as in a) above) but also collects the rent on behalf of the landlord during the tenancy. Other management functions such as repairs (and arranging to get possession of the property at the end of a tenancy if needed) are dealt with by the landlord.

The agent is likely to charge a one-off letting fee and then a monthly fee (often a percentage of the rent -perhaps 5%) for collecting the rent. With this type of arrangement, it is important to avoid confusion, to make sure that the tenant are absolutely clear about who is responsible for which areas of management.

#### ***c) Full Management***

This is where the agent acts as a full letting and managing agent. The agent deals with all management issues: letting and starting the tenancy, rent collection and repairs.

The managing agent will also take some steps towards ending the tenancy, for example, they may serve notice but not take court action.

This service is obviously more expensive than the previous options (perhaps costing between 10% to 15% of the rent), but it is probably worthwhile if the property owner either does not have the time to manage the property or lacks the expertise. It is important that the owner agrees with the agent what type and cost of repairs they are authorised to carry out without seeking further authorisation, and what the division of repair responsibilities there will be between the owner and the manager: making it clear who is suppose to do what,

The agent will usually agree to use the rent they collect to pay for repairs, but if repair costs exceed income, then the agent is not a bank and the owner will have to pay any shortfall at that time.

### **1.2.3 The Relationship Between the Landlord and Agent**

The term 'agency' is used in law to describe the relationship between the principal, (in housing this is the landlord) and the agent. The principal agrees that the agent should act on their behalf in legal relations with third parties (in housing this is the tenant and any other party that the agent needs to deal with in managing a property, for example workers undertaking repairs). The agent also agrees to act on the landlord's behalf. The agreement of the agent and principal may be set out explicitly in a document, or may be inferred from the way they do business together.

#### 1.2.4 The Liability of the Landlord Where an Agent is Used

Where an agent is used, actions carried out by the agent on the landlord's behalf are generally treated in law as if they had been done by the landlord. Landlords are bound by any agreement or contract made by their agent on their behalf with a third party (i.e. a tenant) providing the agent is acting within the authority they have been given.

If the agent agrees to something which the landlord has not authorised, the agent will be liable to the landlord and tenant for any losses. The landlord may not be bound by the agent's action, and the tenant might therefore seek compensation from the agent.

If the agent is acting as managing agent for the property and fails to carry out a statutory duty, such as ensuring an annual gas safety inspection is carried out, the landlord may be held liable for the failure as well. Such responsibilities should be clearly defined in the Terms of Business between landlord and agent.

A landlord will also be ultimately liable to the tenant for the return of the damage deposit, whether it is a deposit taken before 6th April 2007 or where the deposit is protected using an insurance based scheme.

In view of this, landlords should be very careful when choosing an agent, making sure they choose one who will carry out their responsibilities properly. The landlord should also be very clear when giving agents any special instructions (such as 'no pets') to ensure that these are put in writing. Landlords should consider whether an agent's standard Terms of Business protects their interests as well as their agents and should take care to consider any clauses that exclude or limit agent's liability for negligence.

#### 1.2.5 The Liability of the Agent in Agency Agreements

If the agent has acted properly and in accordance with the agreement with the landlord, an agent will not be liable for a contract entered into on behalf of his landlord.

If the agent has acted contrary to instructions (for example allowing pets where the landlord specifically said 'no pets') it is likely that the agent will be liable to the landlord and/or the tenant for any losses which may flow from this. Liability may depend, amongst other things, on the precise instructions from the landlord and subsequent correspondence or conversations. The agent is presumed to be authorised to do things that agents ordinarily do: unless the landlord instructs the agent otherwise.

##### ***Agents and Notice to Quit***

Agents can validly serve possession and other notices on behalf of their landlords. [See Chapter 5 for more detail on possession notices.] Also a notice to quit served on a landlord's agent by a tenant will normally be considered validly served if service to the agent is stipulated in the tenancy agreement.

##### ***Agents and Court Claims***

Although agents can deal with the notice element of recovering possession, agents are not legally entitled to initiate legal proceedings on behalf of landlords. [See Chapter 5] Only claimants or their solicitors are able to sign the statement of truth on the court forms. The fact that a claim form for possession is signed by a letting agent is a common reason for the rejection of possession claims by the County Court.

Frequently, agents will offer landlords the opportunity to take out legal expenses insurance. If a decision is made not to buy this or this option is not offered, then it is generally best for the landlord themselves to deal with any court proceedings which may arise, instructing solicitors directly, if needed. Although the agent may assist by recommending and liaising with suitable solicitors, and even if much of the work related to any claim is delegated to the agent to deal with, it is prudent, as the landlord, to keep involved and remain aware of what is happening.

### 1.2.6 Defining Responsibilities in the Contract

When a landlord enters into an agreement with an agent, a written contract should be drawn up indicating what level of service the agent is offering and the agent's agreed fees. It is important to read the whole contract and discuss any points that are unclear. Areas of concern or disagreement should be resolved before signing the agreement. Any contract should also state what the agent's termination arrangements are if the landlord wants to take over the management of the property themselves.

As in many businesses, a small proportion of agents can go out of business owing both the landlord and tenant money. As the agent may be acting in the landlord's name, it is important to know that the agent is reliable and experienced. Investigate the agent: it is worth trying to get a personal recommendation (the local landlords' association may be helpful here). Check how long the agent has been in business, how many premises they manage, what training their staff have received, and whether they are a member of a professional or trade organisation such as:

- The Association of Residential Letting Agents (ARLA);
- UK Association of Letting Agents (UKALA);
- The National Association of Estate Agents (NAEA);
- Royal Institution of Chartered Surveyors (RICS);
- National Approved Lettings Scheme (NALS).

For student lets, the local College, University or their students' union may also run a lettings or management service.

Some associations require funds belonging to the landlord and tenant to be protected in the event that the agent's business fails. Check out the associations' requirements when considering which agent to use.

Fees and costs for services will vary and the cheapest is not always best if the agent is not an expert in good management practice and housing law. If the agent does not do the job well, this will reflect on the landlord, and it can have potentially serious implications.

It is also important to choose an agent who is familiar with the type of property (and that section of the market) that is being let or managed, so take a look at the other properties the agent has on their books. A friend could be pressed into service to contact them and make enquiries about renting a property from them to see how the agent treats a potential tenant.

### 1.3 Permissions to Let Property

Any property owner who has a mortgage or is not a freeholder may need to secure the necessary permissions before they let the property.

If the owner is a leaseholder then the lease may contain a clause which states either that sub-letting is not permitted or that the freeholder's permission must be obtained prior to subletting. It is very important that this permission is obtained, because if the property is let to tenants

without it (even if permission is sought later) then the conditions of the lease will already have been breached and the freeholder can take legal proceedings against the leaseholder.

The freeholder's permission will generally be a formality and this permission cannot be unreasonably withheld, but the freeholder may make a number of enquiries, for instance, if there have been complaints about noise from former tenants this might be discussed and the leaseholder might be required to satisfy the freeholder that they have addressed this issue this time around. It is usual for the freeholder to make a small charge for granting their permission.

If the freeholder does refuse permission then read the lease carefully to find out what the lease says about granting permission and then seek the freeholder's reasons for his refusal. It may be possible to address and satisfy any misgivings before there is a need to take further advice or the threat of legal proceedings.

If there is a mortgage on the property, one of the terms of that agreement may be that the owner obtains the lender's permission before the property is let, even if only one room is being let. This is because the mortgage lender will be concerned to make sure that nothing is done that may affect the value of the investment and the lender's ability to recover the loan that was made when the property was purchased.

It is important to check the terms of any mortgage. For many buy-to-let mortgages permission to rent the property may be automatic, but even in buy-to-let mortgages there may be conditions on the type of let permissible e.g. 'assured shorthold tenancies only' [see section 3.1.2 for an explanation of assured shorthold tenancy] or a restriction on housing benefit/local housing allowance tenants. If, as an owner, these requirements are not fully understood then seek advice from a solicitor - the one who assisted with the purchase should be able to help. If it is proposed to let the property as 'rooms' or bedsits which will create a House in Multiple Occupation (HMO) [see Part 2] this must be made clear as special permission may need to be sought for this and conditions may be imposed that will need to be met.

If the property was purchased for an owner-occupier on a standard mortgage for home owners, then permission will need to be obtained to let the property to tenants. The lender may increase the cost of the mortgage or change its terms if permission to let the property to tenants is given.

Usually a lender will not object to one room in an owner occupier's home being let to a lodger.

If a property is being purchased that has an existing tenant in occupation make sure that adequate enquiries are made about the tenant's status. A landlord needs to establish for themselves how long a tenant has been resident and what rights they have and this may affect any purchase.

Since 1st October 2008, landlords have been required to have an Energy Performance Certificate (EPC) when a property is let to a new tenant. The purpose of the EPC is to show prospective tenants the energy performance of the dwelling they are considering renting.

The EPC shows two things; the energy efficiency rating (relating to running costs) and the environmental impact rating (relating to the carbon dioxide

## 1.4 Energy Performance Certificates

emissions) of a dwelling. It is shown as coloured graphs similar to those found on, for example, fridges and other domestic appliances. The rating is also accompanied by a recommendation report that shows how to improve the dwelling's energy efficiency.

Once an EPC is obtained it is valid for 10 years unless the property is sold and a new EPC must be obtained at that point.

The EPC should be arranged before the property is advertised and a copy must be available to tenants, free of charge, before they are given written details, arrange a viewing or agree a letting. The actual tenant who takes the property should be given a full copy of the EPC including the assessor's recommendations.

It is a requirement to provide an EPC when the property is let as a separate (or self-contained) dwelling. This also applies if a whole house or flat is being let to a group of sharers on one contract. It is not a requirement to provide an EPC if only a single room in a house is being let or if a house is let room by room on separate contracts.

Advertising a property without a valid EPC can result in a potential £200 fixed penalty notice from trading standards.

EPCs are completed by registered Domestic Energy Assessors (DEAs). An assessor can be found at [www.hcrregister.com/searchAssessor.html](http://www.hcrregister.com/searchAssessor.html) or seek recommendations from friends and contacts. Once commissioned, the EPC is valid for 10 years or until a new EPC is produced.

Two guides are available on CLG's website, [Energy performance certificates for dwellings in the social and private rented sectors: A guide for landlords](#) and [Energy performance certificates for dwellings in the social and private rented sectors: A guide for landlords](#) and can be downloaded from [www.communities.gov.uk/publications/planningandbuilding/epclandlordguide](http://www.communities.gov.uk/publications/planningandbuilding/epclandlordguide) and [www.communities.gov.uk/publications/planningandbuilding/epcsrentingtenants](http://www.communities.gov.uk/publications/planningandbuilding/epcsrentingtenants)

Although the EPC may suggest a number of improvements that could be made there is no legal obligation to undertake any of these works, but it is advisable to discuss with prospective tenants which (if any) of the energy-saving recommendations might be carried out or might already have been carried out. By being transparent about this and managing the tenant's expectations a potential complaint may be avoided

## 1.5 Insurance

Buildings insurance covers the risk of damage to the structure and permanent fixtures and fittings of a building, for example, as a result of fire. If the property is leasehold, then the freeholder will normally arrange the buildings insurance and re-charge the cost to lessees.

Tenants are usually responsible for providing their own contents insurance to cover their personal belongings. This is a matter for the tenants it is not possible to require them to do this.

The landlord should take out contents insurance to cover loss or damage to household goods that have been supplied by them, e.g. white and grey goods, carpets, curtains and in the case of furnished lets other furniture and fittings.

Insurance for rented property is usually more expensive than for owner-

occupied accommodation and insurance aimed at owner-occupiers will not necessarily be suitable for rented property. The Association of British Insurers produces guidance for owners which explains how insurers assess risks and what can be done to secure cover. If the insurance company is not informed that a property is occupied by tenants (instead of being owner-occupied) this is likely to invalidate the insurance, and any claim made will either be refused or any pay out will be reduced. Remember, that insurance cover, like the mortgage, may come with conditions attached governing the type of tenant that the property is let to.

There are special policies for landlords that provide cover for additional risks such as the loss of rental income and the cost of temporary accommodation where a property has been made uninhabitable as a result of one of the insurable risks. Insurance can also provide additional cover for the landlord in case the tenant is injured as a result of an accident in the property together with other elements not necessarily covered by normal householder insurance.

The insurance market is extremely competitive and it is worth shopping around to find the best value for money. Landlords' organisations often offer lower cost insurance to members.

The tenancy agreement should take into account any implications of the type of insurance cover there is: for example, if the insurance places an upper limit on the cost of temporary accommodation it may be worth, within the tenancy, limiting liability to the insured amount.

## **1.6 Tax**

Tax is an aspect of residential property investment which is often overlooked. There are many twists and turns to consider at all levels, whether it be for income tax, capital gains tax or inheritance tax, and it is important to get the structure of ownership right and to make sure that all tax relief, allowances and claims are made.

This section summarises some of the main aspects of the principal areas of property tax. There are many detailed aspects to consider at each stage, and it is very important to obtain good professional advice if there are any doubts as to the applicability of any rule. Tax decisions can be influenced by what other income and assets the tax payer has and will not necessarily be the same for every property investor.

All areas of tax require the practise of good record-keeping (this is equally applicable when a property is sold). It is essential that full and accurate records are kept of all income and expenditure, perhaps maintaining a separate bank account for these, so that all of the information is readily available to allow the tax payer to claim the maximum deductions and pay the minimum amount of tax. Failure to keep adequate records can result in penalties.

### **1.6.1 Income Tax**

If the landlord is a new property investor HM Revenue & Customs (HMRC) should be notified immediately of the new source of income which the landlord is now receiving. The tax is computed through an annual tax return sent to HMRC.

Income tax is payable on profits made from the property-renting business by computing the total of rents receivable less expenses. Tenants' deposits do not count as income. Typical expenses which can be deducted include:

- repairs and maintenance (though not initial expenditure)

- needed to bring the property up to a letting standard, or improvements);
- gardening;
  - cleaning;
  - ground rents;
  - service charges;
  - contents and building insurance;
  - managing agent's fees;
  - legal fees for tenancy agreements;
  - advertising;
  - HMO licence costs;
  - interest (not the capital repayments) on loans used to buy or improve the property;
  - water rates;
  - council tax;
  - heating;
  - lighting;
  - security;
  - accountancy fees;
  - subscription to a landlord's association; motor and travelling expenses for visiting the property and for attending to matters relating to let properties.

A special wear and tear allowance of approximately 10% of the rents received can be claimed if the property is let furnished.

This list is not exhaustive and can vary in individual circumstances.

A special tax allowance exists if the landlord undertakes certain improvements to the property to increase energy efficiency, known as the Landlords' Energy Saving Allowance (LESA). Further details can be obtained from [www.hmrc.gov.uk/manuals/pimmanual/PIM2072.htm](http://www.hmrc.gov.uk/manuals/pimmanual/PIM2072.htm)

On the question of repairs and maintenance, it is important to distinguish between items of repair and items of improvement. Redecorating rooms, changing windows from single to double-glazing, or replacing a defective roof are examples of repairs which will be allowable. The addition of another floor to the building, or a new conservatory would not qualify and tax relief would only be received on the eventual sale of the property, being set against the eventual capital gain.

## 1.6.2 Structure

Where properties are owned in joint names, then the profits can be shared between the joint owners or, in certain circumstances, can be wholly attributable to one or other of the joint owners.

Where a husband and wife own a property jointly, the income is automatically assessed equally, even if the actual ownership proportion is not equal, unless they elect otherwise.

For capital gains tax purposes, the proportionate ownership is important, and any capital gain would be shared between the joint owners in their respective proportions giving rise to multiple tax-free allowances.

In certain circumstances, it may be worthwhile for a limited company to be brought into the structure. It is normally sensible for the properties themselves to be held in individual or joint names, but these can be sublet to a company who then lets the properties to tenants. Professional advice should be sought to look at the best structure for any given landlord to use

to own investment properties.

### 1.6.3 Capital Gains Tax

Capital Gains Tax (CGT) is a tax on the gain or profit made when shares or property are sold, given away or otherwise disposed of. There is a tax-free allowance and some additional reliefs that can reduce a Capital Gains Tax bill

Capital gains tax is one of the most important taxes to consider as property prices will usually rise over the long term. As the amounts at stake are potentially significant, it is important to make sure that all of the available tax relief and allowances are taken advantage of. Many of these offer scope for substantial reductions in the ultimate amount of tax to be paid. The basic concept is quite simple: the final price received for the property when it is sold (after deducting legal costs and agent's fees) is compared with what the property cost initially (including any legal fees and stamp duty), and the profit, or "gain" is calculated on which tax is levied.

There are then potential deductions and tax relief available, the most important of which are as follows:

- the cost of any improvements to the property whilst under ownership can be deducted (but not the cost of repairs that has previously been set off against income tax);
- if the property has been occupied by the owner as an owner-occupier at any time, then there are two additional very valuable reliefs:
  - lettings relief whereby up to a certain amount of any gain per owner can be tax free
  - a proportionate principal private residence relief;
- if the property was owned at March 1982 its value at that date is substituted for the original cost of the property in calculating the ultimate gain;
- set value of any capital gains in a single tax year is tax free per individual (not per property), tax only being charged on any gain above that value;
- if there are two properties which have been used as a residence (e.g. one in London and one in the country), it is worthwhile making a principal private residence election on one of those properties to maximise capital gains relief. This will also reduce the potential CGT payable if one of the properties is let at any time in its ownership.

### 1.6.4 Inheritance Tax

Where a property is owned at the date of death, the value of that property forms part of the estate and is potentially liable to inheritance tax (IHT). If the property is left to a spouse in a will, then no IHT would be payable until the death of the spouse.

There are ways of reducing the Inheritance Tax liability. A tax efficient will should be drawn up to ensure maximum use of IHT allowances.

Wills and trusts are specialist areas where it is important to obtain professional advice. Advice will vary depending on the individual's circumstances.

### 1.6.5 Stamp Duty

Stamp Duty Land Tax (SDLT) is payable by the purchaser within 30 days of the purchase, so this should be taken into account when budgeting for a purchase. No Stamp Duty is payable below the prevailing threshold, but above the nil-rate threshold the applicable rate of SDLT will depend upon the price paid. There are reliefs available in 'disadvantaged areas' – but these only apply to the lower value properties in those areas. The list of disadvantaged areas is much longer than one would imagine, so it is always worth checking to see whether relief is available. Go to [www.hmrc.gov.uk](http://www.hmrc.gov.uk) and search for 'Postcode Search Tool' to see if a property could qualify.

The value of any fixtures, fittings or furniture included in the purchase can be excluded from the purchase price in calculating the Stamp Duty payable, though the Stamp Duty Office will look at any obvious overloading.

### 1.6.6 Value Added Tax

Under normal circumstances, landlords cannot register for value added tax (VAT) in relation to their residential properties, as residential rental income is exempt from VAT. This means that any VAT incurred cannot be reclaimed. However, landlords who are VAT registered in their own self-employed businesses may be able to claim some VAT incurred.

A special VAT rate of 5% is available on the renovation or alteration of a single household dwelling that has not been lived in for three years or more, so that this is a useful saving over the normal 17.5 per cent rate.

More information on tax can be obtained from a local tax office or visit HM Revenue & Customs website at [www.hmrc.gov.uk](http://www.hmrc.gov.uk). Copies of leaflets on taxation of rents and other tax matters can be downloaded from HMRC's website, or can be requested by phoning the Order Line on 08459 000 404.

### 1.7 Council Tax

In self-contained flats or houses, the tenant is liable for the council tax. Landlords should notify the local council of the name of the tenant and when they moved in.

If the property is empty, the landlord will be liable for council tax, but an exemption can be sought for up to six months if the property is unfurnished.

Students undertaking full-time education courses are exempt from council tax, but students have to apply for exemption. Their educational institution will be able, on request from the student/s, to provide them with a notice that they are a full time student and liable for exemption. If their tenancy agreement extends over the summer vacation, the exemption also covers that period.

If there is one tenancy agreement for the property in which the occupiers are jointly and severally liable, the tenants are responsible for the payment of council tax.

If there is more than one tenancy agreement for the property (e.g. if it is divided into bedsits), the landlord is responsible for payment of council tax and collecting this through the rent charged to tenants. Students in this type of arrangement should be asked to provide proof of study to the landlord who can then apply for their exemption from the council.

A tenant over 18, living alone in a property will qualify for a 25% discount from their council tax bill.

Landlords should inform the council tax section of the local authority in writing whenever someone moves in or out of their property, or if it is empty.

## 1.8 Sources of Legal Advice

If a letting or managing agent is being used, they should be able to provide some free basic advice about housing law as part of their services.

The Local Authority or local Citizens Advice Bureau can also provide simple information on housing law.

Some excellent leaflets are available from the Communities and Local Government's website [www.communities.gov.uk](http://www.communities.gov.uk) (follow the links for Housing, then Private Housing, then Private Rented Housing).

### ***Publications are available free of charge from:***

CLG Publications, PO Box 236, Wetherby, LS23 7NB

Tel: 0870 1226 236, Fax: 0870 1226 237, Textphone: 0870 1207 405

Email: [communities@twoten.com](mailto:communities@twoten.com)

Most landlords now have access to the internet, and a search for landlord legal advice can lead to a number of sites giving free basic information and offering other services where a charge is made [*See appendix 3 - Useful contacts for landlords.*]

Landlords' associations usually offer members free basic legal advice. If more detailed legal advice, representation or advocacy are needed then it may be necessary to consult a solicitor. Make sure the solicitor used is experienced in landlord and tenant law. It is best to go by personal recommendation. The local landlords' association will be able to suggest suitable firms. Firms specialising in work for landlords often advertise on landlord-related websites on the internet. Remember to keep receipts for any legal costs incurred because it may be possible to obtain tax relief against these payments.

Be careful when reading BLOGs: there is a lot of urban myth out there and other landlords are not always a reliable source of information.

## 1.9 Membership of a Landlords' Association

There are a number of landlords' associations [*see appendix 3 - Useful contacts for landlords*] and it is worth considering paying to join and become a member. Membership normally includes:

- a regular newsletter giving advice;
- updates on housing law or policy as they change;
- the chance to make representations on proposed changes to regulations, the law or tax;
- discounts for services such as insurance;
- individual advice if there is a problem.

Landlords Associations normally hold periodic meetings where there is an opportunity to meet other landlords and discuss issues and problems. Through the network of other members ideas and procedures can be obtained to resolve problems on how to manage more successfully.

## 1.10 Useful Contacts for Landlords

Many of the most useful contacts are on the internet. For those without access to the internet most libraries offer free internet access. Alternatively the library can provide telephone contact numbers for different services within a local area. [*See appendix 3 - Useful contacts for landlords.*]