

Property and Tax Briefing: Buying a Second Property

If you are considering buying a second property, whether to rent out, as a second/holiday home, or for children to use, there are a number of issues you should bear in mind.

- **Capital Gains Tax (CGT)** – for any property which is not your principal primary residence there may be CGT liability on sale. Consider whether the property should be owned in joint names to take advantage of two CGT allowances.
- **Income Tax** – rental income is subject to income tax at your marginal rate, whether 20% or 40%. For properties in joint names, rental income will be divided among the owners and each owner is responsible for their own tax. Consider whether the property could be bought in the name of your spouse/civil partner if they are a lower rate taxpayer. It could subsequently be transferred into joint names prior to sale to maximise CGT allowances.
- **Income tax deductions** – interest on a mortgage (although not payments towards capital) may be deducted for tax purposes from rest of income. Consider the most appropriate size of loan for the property. Insurance, legal fees (e.g. for leases), rental agency fees may be deducted. Keep careful records of all expenditure.
- **Inheritance tax (IHT)** – the property will form part of your estate for IHT purposes. Consider owning in joint names to reduce the value in each estate, and think about who should inherit the property from you. Review your Will!
- **Buy-to-let** – you must register as a landlord with the local authority. Ensure you have a valid and legally binding lease in place with your tenants – there are procedures to follow to protect your position at the end of a lease or should you need to evict the tenants.
- **Second/ holiday homes** – exemptions from Council Tax are no longer available and only 10% discount is applied. Depending on how often you will make use of the property, insurance premiums may also be higher than expected.
- **Planning for the future** – it is important that you have an up to date Will. If not, your property will pass according to the rules of intestate succession and it is not the case that your spouse/civil partner will automatically inherit your property.

Lindsays can help with all aspects of buying a second property, from the purchase to leases, tax planning and annual tax returns, to protecting your asset for your family's future. If you require specific advice on the issues raised in this briefing or would like more general advice please contact Stephanie Dodds, Tax Manager, or one of our Private Client partners - John Elliot, Callum Kennedy, Elaine Dick, David Campbell or Alison Attack.

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