September 2024
Property Newsletter

Welcome to our monthly newsletter for property landlords. We hope you find this informative.

Interest Rate Cut to 5% - impact on mortgages

On 1 August, the Bank of England announced a 0.25% cut to its base rate, which now stands at 5%. The base rate had previously remained at 5.25% for eleven months, as higher interest rates were considered necessary to reduce inflation down to the previous government's 2% target.

The base rate cut is good news for borrowers, and it is predicted that borrowing costs will continue to fall in 2024 and 2025.

Uncertainty over whether the base rate would increase further was reflected in mortgage deals. This uncertainty is now over, and it is expected that mortgage rates will return to where they were at the beginning of 2024.

Estate Agent Zoopla predicts that less uncertainty will encourage home buyers, with 10% more house moves this year and a predicted average house price increase of 2% by the end of 2024 (read the Zoopla analysis here).

Amanda Bryden, head of mortgages at Halifax has added to the conversation, saying, "Against the backdrop of lower mortgage rates and potential further base rate reductions, we anticipate house prices to continue a modest upward trend throughout the remainder of this year."

Stamp Duty Land Tax: Incorporation Pitfalls

Incorporating a property business is a strategy often promoted as a way to reduce tax. There are many sound reasons for incorporating a property business, but generally, reducing the tax burden is not one of them. Schemes, often involving a convoluted chain of transactions, the sole purpose of which is to avoid tax, are being targeted by HMRC because they do not work.

Recently, we were made aware of schemes involving setting up a partnership structure before incorporation, as a way of avoiding the Stamp Duty Land Tax (SDLT) charge that applies when an individual transfers property to a company.

The scheme's promoters appeared to have overlooked an SDLT anti-avoidance rule (Section 75A Finance Act 2003) that would apply if a series of transactions take place that would result in less SDLT being payable than it would through a straightforward sale. More information on Section 75A can be found here.

Other schemes that we have seen being promoted involve holding the property in a Limited Liability Partnership (LLP), with the taxpayer's children being admitted as members. The intention here is to use the children's personal allowance and basic rate band so that less tax is paid on their share of the property rental income.

The scheme promoters claimed that the children's ability to claim SDLT first-time buyers' relief in future would be preserved. However, SDLT first-time buyers' relief only applies if a person "has not previously been a purchaser in relation to a land transaction, the main subject matter of which was a dwelling". It is likely that HMRC would consider the children to meet this criteria and therefore be ineligible for first-time buyers' relief in future.

The promoters referred to above have been issued a 'Stop Notice' by HMRC, which means they must desist from promoting the schemes, but others are still operating, so it pays to be aware of the risks involved. In the case of tax-saving schemes, the adage often applies: If it looks too good to be true; it probably is!

If you need to discuss tax planning arrangements with us, please get in touch.

The Housing Scotland Bill

The Scottish Housing Bill, which is currently progressing through the Scottish Parliament, includes a proposal to include rent controls as stringent as 0% in defined areas for up to five years.

This is concerning for stakeholders, particularly considering a recent report by the Institute for Economic Affairs, which concluded that "rent controls reduce the supply and quality of rental housing, reduce housing construction, reduce mobility among private tenants, and lead to a misallocation of the existing rental housing stock".

In addition, council leaders have expressed concerns that the cost of monitoring rents in their local authority will be excessive and that no additional funding has been allocated by the Scottish Parliament.