

A Guide to Financial Planning for Landlords



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Welcome to Succession Wealth

Our Wealth Planners are here to help you take control of your finances and provide you with the confidence you need to go after the things that matter to you.

Succession Wealth Management Limited is a large national UK financial advice firm. Our teams of Wealth Planners deliver high quality independent advice to thousands of clients across the UK, and we're committed to helping people achieve more with their money.

Our clients are at the heart of everything we do and looking after their wealth journey is a privilege to us. The relationships we build last longer than a lifetime, and we are proud to provide advice across generations. When you choose to work with us, we promise to provide an exceptional personal service tailored to your unique financial aspirations.

Why Financial Planning Matters To Landlords

Everyone wants to feel secure about their financial future and, as a landlord, financial security will always be at the forefront of your mind.

If you operate on a self-employed basis, you may not enjoy many of the financial safety nets that those who are employed have. This includes enhanced sick pay, death in service, and pension contributions from your employer.

If, on the other hand, you run your property business alongside full-time employment, you could face other challenges, such as maximising tax efficiency. Working with a Wealth Planner who understands the challenges landlords face can help you deal with these issues and achieve your aspirations, which may include:

- Growing your wealth and achieving your life goals
- Protecting your income and family's financial future
- Leaving your wealth to future generations as tax-efficiently as possible
- Enjoying peace of mind and financial wellbeing
- Aligning your financial strategy to your values

This guide outlines some of the key financial planning challenges you will face as a landlord, and how we can help.

Statistic

According to the 2022-23 English Housing Survey, there are more than 4.5 million rented properties in English Private Rented Sector (PRS), making up over 18% of all households. [1]

[1] 14th December 2023 | What the 2022-2023 English Housing Survey reveals about the PRS | The Independent Landlord

Holistic Financial Planning

We know that every client with a property portfolio comes to financial planning with a unique set of needs and objectives. That is why Succession Wealth takes a structured approach to financial planning, which may help landlords grow and protect their wealth.

To do this we help you identify opportunities to maximise your money's growth potential while keeping risk to a minimum. Furthermore, we make sure we understand your buy-to-let business and your wider wealth, to ensure that measures put in place to benefit you in one area of your finances are not detrimental to another.

This is why our Wealth Planners take the time to gain a detailed understanding of your circumstances and your goals. By doing this, they will create a comprehensive strategy that is based on independent advice, so that you can maintain your lifestyle, enjoy peace of mind and be flexible enough to deal with any life events that you face.

Why working with other professionals provides an even better outcome for landlords

At Succession Wealth, we understand the importance of working with other professionals when you're a landlord. Running a property rental business typically means liaising with accountants and legal professionals as you grow, maintain or sell your portfolio.

We will work with your accountant or solicitor to fully understand your property business and wider wealth. As a result, you can be assured that we will understand every area of your wealth so that nothing is missed and every opportunity is maximised.



Establishing Your Current Financial Position

Many of our clients tell us that they view their Succession Wealth Planner as more than a professional service provider: they are a trusted adviser and guide. Central to this is helping those we work with understand their current financial position, so that they have the confidence to make financial decisions that work for them and their property rental business.

As a landlord, you may be looking for advice in the following areas:

- Achieving the lifestyle in retirement that you have always promised yourself
- Exiting your buy-to-let business as tax-efficiently as possible
- Passing your wealth to loved ones in a tax-efficient way
- Growing your property portfolio in a sustainable way
- Managing your cashflow to ensure financial liquidity
- Reducing your tax liability as a landlord

Whether you have a specific question, want a strategy to maximise your wealth's growth potential or simply want to understand your financial situation more clearly, we can help.

Energy performance certificates (EPC) rating rules

The Minimum Energy Efficiency Standards (MEES) are a set of rules relating to rental homes. They were first introduced in England and Wales in 2015.

In 2018, MEES made it illegal for private landlords to rent a property that has an EPC rating below E. That means that any homes rated F or G can't be offered for rent until their rating is improved.²

Getting your properties up to the required standard could be costly, which is why cashflow modelling is essential. It could help you plan ahead for the expense, ensuring you have the financial resources you need to meet the regulations without relying on a loan, which may be expensive.

Using Cashflow Modelling To Forecast The Future

Running a successful property rental business means understanding your cashflow. One reason for this is that, as a landlord, you are responsible for maintaining and repairing your properties, which can involve significant expenditure.

Being able to plan ahead so that you can ensure you have the financial reserves to meet any expense you incur, whether large or small, is vital to the success of your buy-to-let business. That is why cashflow modelling is a vital part of the financial planning process.

Our cashflow forecasting software illustrates how a range of choices under different scenarios could affect your financial position both now and in the future. As a result, you can create a business plan that allows you to meet your expenditure as a landlord in a way that is as tax-efficient and cost-effective as possible.

[2] Rightmove | EPC requirements for landlords and rental homes

Mitigating The Amount Of Tax You Pay

Landlords have had to deal with significant tax relief reforms in recent years, which could mean greater tax charges. For example, in 2017 changes were made to the tax relief landlords could claim against mortgage expenses, which means they now receive a tax credit based on 20% of their mortgage interest payments.

This is less generous than the previous system, which provided 40% tax relief on mortgage payments to landlords who were higher-rate taxpayers.

That is not the only tax change that has the potential to affect landlords. As from April 2024 the Capital Gains Tax (CGT) annual exempt amount will be £3,000, down from the previous level of £6,000.

As landlords are typically liable for CGT when they sell a buy-to-let property held in their personal name, these lower thresholds could mean significantly higher tax charges than before. When you consider that CGT is charged at 18% for landlords who are basic-rate taxpayers, and 24% for those who are higher-rate taxpayers, the drop in the annual exempt amount could expose you to a substantial charge.

This is why working with a Wealth Planner who understands the tax needs of landlords, and has a grasp of your personal circumstances and your goals, is so vital. They will make sure any decision you make is as tax-efficient as possible, so that you can get more from your money and enjoy life.

Pension contribution tax relief for landlords

As a sole trader, any income earned from property rentals cannot be used as "earnings" when it comes to making pension contributions. That said, if your buy-to-let business is a limited company, you can make pension contributions from the earnings you generate from the company.

Care needs to be taken though, as you cannot make pension contributions from any dividends you take as an income. What you may not be aware of is that you can make contributions to your pension from any rental income received through holiday lets.

As you can see, the tax treatment of pension contributions is complex for landlords. If you would like more information on this, or whether a pension could fit into your retirement strategy as a landlord, please contact us.



Creating A Retirement Strategy That Works For You

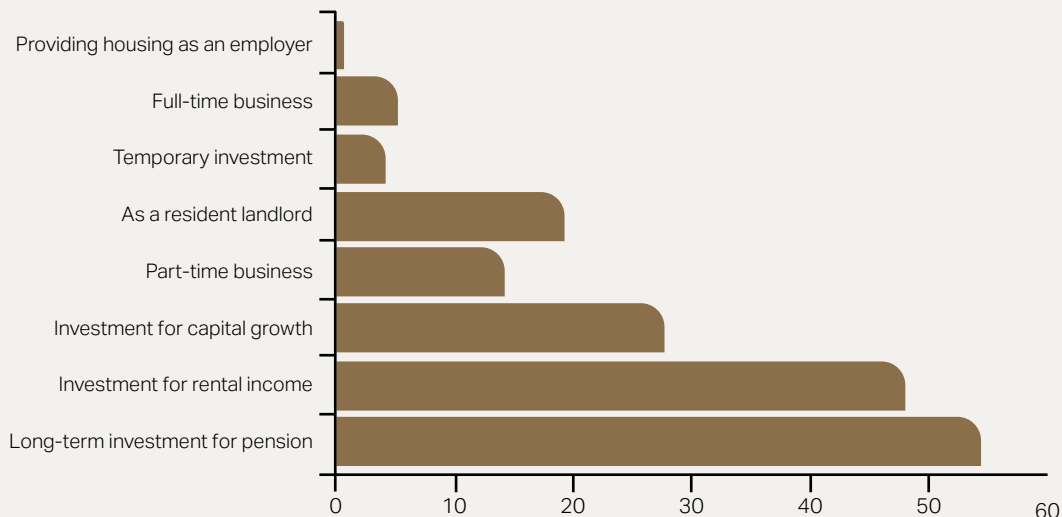
Government research reveals that the median age of English landlords is 58 years old, which means you might be thinking about retirement and the implications of this for your rental business.³

While building a buy-to-let portfolio to support you financially in retirement could be a shrewd financial strategy, care also needs to be taken.

You will need to understand the best way to take an income when you finish work, and the most tax-efficient way of doing it. More importantly still, you need to understand whether your rental income alone will provide the lifestyle in retirement that you want.

Succession Wealth can confirm these important points for you and the options that are available, so that you can rest easy about your finances when you retire. Our Wealth Planners will develop a strategy that incorporates your property business and wider assets, as well as your financial situation and goals.

According to government data, more than half of landlords own their buy-to-let portfolio to provide an income in retirement.



If you are one of them, understanding how to maximise your earnings from your buy-to-let business in retirement could make the difference between living the lifestyle you want or not.

Succession Wealth helps clients who are landlords make the most of their retirement, and create strategies to help those with property portfolios achieve their goals. If this is something you are looking to do, we would be happy to help.³

[3] 21st March 2024 | English Private Landlord Survey 2021: main report | Gov.uk

Saving You Time

At Succession Wealth we understand that, as a landlord, you have many demands on your time. In any given day you could be dealing with the maintenance of your rental properties, talking to tenants or meeting with estate agents.

Landlords are often financially savvy yet time poor, which is why our Wealth Planners work around their client's schedule. This means meetings do not need to be rushed, so that we can take the time to fully understand your financial situation and aspirations.

As a result, we can clearly explain the financial opportunities and challenges you may face and provide solutions that will help you meet your goals without interrupting your busy schedule.

Intergenerational planning can help provide a smooth transfer of your wealth to your family and friends while providing you with greater control over how it is passed to them.

This is especially important for landlords, as owning a portfolio of properties could result in a significant Inheritance Tax (IHT) liability.

As IHT is typically charged at 40%, this could significantly reduce the amount of money you can leave to loved ones. There is good news though, as it is possible to reduce your exposure to the tax using gifts that the government allows you to make every tax year.

These include:

- Up to £3,000 that can be given to one person or shared between many
- Wedding gifts of up to £1,000 to anyone, £2,500 to grandchildren, or £5,000 to children
- Up to £250 to an unlimited number of people
- Gifts of any amount that are regular and come directly from your income
- A potentially exempt transfer (PET), which allows you to give unlimited amounts. You must then live for seven years for it to fall completely outside of your estate for tax purposes

Of course, gifting a property may be more complex, with the value involved exceeding the annual exemption.

Gifting is just one option available to landlords to reduce their exposure to IHT, and please remember that strict stipulations may apply if you intend to use them.

As IHT mitigation and intergenerational planning is complex, landlords should always speak to a certified wealth planner to confirm the best strategy for them. This is something Succession Wealth has extensive experience in, and we would be pleased to help you mitigate your exposure to IHT.

Inheritance Tax (IHT)

You are usually allowed to pass on an estate worth between £325,000 and £1 million before it becomes liable to Inheritance Tax (IHT). The amount, which is known as the "nil-rate band" (NRB), will depend on your personal circumstances, such as whether you are married or in a civil partnership and whether you plan to leave your home to your children or grandchildren.

In the Autumn Budget 2024, the government froze the NRB until April 2030, which could increase your estate's exposure to IHT. If you would like to confirm your NRB or find out more about the exemption, please contact us as we would be happy to help.

Ensuring Your Financial Security Whatever Life Throws At You

As a landlord you will understand the importance of insurance. From landlord specific building protection to contents cover and liability insurance, making sure that you have the correct level and type of protection is vital.

If you are self-employed and own rental properties you will not have the safety net afforded to many of those in employment, such as death in service benefit or enhanced sick pay.

Working with you, we will carefully assess your lifestyle, personal circumstances and self-employed status to develop a financial safety net that protects you from life's curve balls. This could include:

- Critical illness cover
- Life cover (if necessary)
- Income protection
- Family income benefit.

This provides the assurance that you, your rental business and your family are protected from the financial impacts of an unexpected event.

Enjoy peace of mind with Succession Wealth's "plan for success" approach

We know that financial wellbeing is vital to an enjoyable and enriched life. To help you achieve this, we focus on preserving, protecting and growing your wealth using our "Plan for Success" process.

This robust and flexible five-step approach provides you with a financial plan that is individually tailored to your current circumstances and future aspirations. This provides you with the confidence and reassurance that you can live the life you want, while having the flexibility to adapt to any financial changes you may face as a landlord.



Sole Trader Or Limited Company? The Pros & Cons For Landlords

More landlords are choosing to operate through a limited company because of the changes to mortgage income tax relief that were introduced in 2017. Because of these changes, landlords can no longer deduct mortgage expenses from rental income to reduce their tax bill, and instead receive a tax credit based on 20% of their mortgage interest payments.

Let's look at the pros and cons of operating as a sole trader or limited company.

Sole trader

If you run your buy-to-let business as a sole trader, there is no distinction between you, the landlord, and the business. This means you may be liable for Income Tax on all of your rental earnings whether you take all, some or none of it for yourself.

Furthermore, any property you sell from your portfolio could be liable to Capital Gains Tax (CGT), which is charged at 18% or 24% depending on your marginal rate of tax. That said, as a sole trader your accounting requirements are much less complex and time-consuming than required for limited companies.

Limited company

If you have a limited company the rental income goes into it and not to you personally. This means that you do not pay Income Tax on the rental income, as the company pays Corporation Tax, which will range between 19% and 25% depending on the level of profit your business makes.

Only the earnings you draw from the limited company will

be liable to Income Tax or Dividend Tax, or both, depending on how you take your income.

As limited companies pay Corporation Tax on profits, they are not exposed to CGT if they sell a property. Furthermore, running your property portfolio through a limited company means you are not liable for the full extent of the company's liabilities.

While switching to a limited company may sound like the better option for landlords, doing so brings a host of additional responsibilities and statutory requirements. More importantly though, switching from sole trader to a limited company could expose landlords to:

- A significant Capital Gains Tax liability
- Substantial legal fees
- Higher mortgage costs
- A Stamp Duty land tax liability

This is because switching from an individual to a limited company requires you to effectively sell your private portfolio to your new limited company, which could expose you to all of the above. As you can see, this could be extremely expensive.

How we help landlord clients

Frequently asked questions

We are often asked the following questions by our landlord clients. If you are asking the same kinds of questions, speak to our team, who would be happy to provide answers.

- How can my property rental company provide a comfortable retirement?
- How can I improve tax efficiency as a landlord given recent tax regulation changes?
- What is the best way to pass my property portfolio and other assets to loved ones?
- What is the best way for me as a landlord to protect my business and my income?

Contact us

If you would like to discuss this, or any aspect of financial advice with one of our Wealth Planners, feel free to email us at hello@successionwealth.co.uk or call us on **0800 051 4659** and we will arrange for someone to contact you.



Important Information

Succession Wealth is a trading style of Succession Wealth Management Limited, which is authorised and regulated by the Financial Conduct Authority. Financial Services Register number 588378.

Succession Wealth Management Ltd is registered in England at The Apex, Brest Road, Derriford Business Park, Derriford, Plymouth, PL6 5FL. Registered Number 07882611.

Please note: This guide is for general information only and does not constitute advice. The information is aimed at retail clients only.

The content of this guide was accurate at the time of writing. Whilst information is considered to be true and correct at the date of publication, changes in circumstances, regulation, and legislation after the time of publication may impact on the accuracy of the guide.

Your home may be repossessed if you do not keep up repayments on a mortgage or other loans secured on it.

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