



FIVE AREAS AFFECTING SELF-EMPLOYED IN THE BUY-TO-LET MARKET

West One highlights five challenges complicating property purchase for the self-employed and look at how specialist lenders can alleviate these obstacles.

It's common that those classed as self-employed find it difficult to secure finance/ mortgages from high street lenders when looking to purchase property, but there are ways this process can become a smooth transaction, whether it's from a new home or investment.

1. Is Buy-to-Let for self-employed?

In an economy which the IMF is forecasting UK GDP to fall by 0.3% in 2023 and show 1% growth in 2024, is this now the time to invest in property? Especially if you have the additional challenges of being self-employed.

However, Buy-to-Let has never been seen as a short-term solution, with [PropertyData](#) showing average house prices increase from £191,000 (2009) to £287,000 (2023). So those with an entrepreneurial mindset are primed to take a calculated risk and be 'in it' for the long haul.

In 2022, the [National Office](#) of statistics reported 13% of UK workers were self-employed. From an opportunity perspective, large multi-national lenders may view this group as too small of a target market, and may not generate the appropriate business levels.

Compared to a Specialist lender, who may view this group as integral to their success, providing product offerings to meet their needs, and understand how specialist lenders can support Buy-to-Let applications.

2. Affordability of Buy-to-Let

Affordability is a hot topic for 2023 with many property buyers struggling to meet affordability measures imposed by lenders. With an ever-increasing emphasis on stress rates and Interest Cover Ratio (ICR) from lenders, landlords are faced with some real challenges to meet the current market conditions.

Lenders who can apply a manual approach to underwriting can help assess affordability and understand the individual circumstances causing challenges for borrowers. Could changing the LTV or length of term ease affordability? Solutions can be looked at, possibly including second charge to release equity to increase the deposit on a prospective investment.

Specialist lenders could also be able to lend on a longer term, thus meaning the amount borrower can be stretched out over a longer period, resulting in lower monthly repayments if a repayment

mortgage has been selected. The majority of [BTL](#) deals are taken on an interest only basis, but it is the stress rate the lender applies that is fundamental to how much can be leveraged against the property based on its current rental.

This is where specialist lenders can innovate on their product offering to help the self-employed achieved their borrowing needs.

3. Trading History

Many high street lenders often require several years of trading history. This has further been complicated by COVID years which impacted revenue. If businesses started immediately after COVID they'd just be reaching their second year of trading and may not have the profitability due to infancy of the business.

4. Tax rules and regulations

One way tax rates are impacted is by the level of income and profit which a self-employed individual makes. For those employed, they will be in a better position to understand how much tax they will have to pay based on their salary. However, if their self-employed counterpart had an unexpected upturn in fortunes, they could receive an unexpected tax bill. Being able to demonstrate a steady income and outgoings provides lenders with greater confidence in repayment.

For those who are self-employed, they may consider utilising a limited company set-up, but there can be further tax implications if you set-up your [Buy-to-Let](#) investment in a limited company structure. It is important to get the right tax advice before embarking on a limited company buy-to-let.

5. Set-up through limited company

Self-employed individuals have made this choice for a reason, highlighting consideration as to why they could set-up Buy-to-Let investments through limited companies may fall on deaf ears. But there are some good reasons why there are benefits to this arrangement.

Benefits of Buy-to-Let properties being under limited companies

- Improved tax efficiencies
- No rental income tax
- Corporation tax could sit below income tax
- Claim back expenses - certain expenses such as mortgage interest are classed as business expenses

Challenges for Buy-to-Let limited companies

- No Capital Gains Tax (CGT) allowance when the company sells property
- Transfer costs if existing properties are added into the company
- More paperwork - Self-employed individuals are not necessarily accountants, so may not have the experience, knowledge or time to look at more documentation

Self-employed will continue to have challenges as they apply for mortgages as their incomes are usually far more complex than their employed counterpart. Specialist lenders will help them borrow and demonstrate that being self-employed should not be an obstacle in securing funds for the next or dream home.