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Beating the rising cost of second home ownership

FRIDAY, 22 OCTOBER 2010

Dream homes in the sun are becoming a costly nightmare. Almost a quarter of holiday home owners are struggling to meet costs of ownership and 85% of overseas property owners say the cost of maintaining their property has gone up in the last 12 months.

Here currency specialists HiFX and partners give an expert view on reducing the costs of ownership, including cutting the costs of international money transfers, ensuring your property is as tax efficient as possible and maximising rental opportunities.

Protect yourself from currency fluctuation

According to HiFX, two years ago the average overseas home owner transferred £10,000 a year to meet maintenance costs, including overseas mortgage payments, and provide spending money when they visit their second home. However as the pound has taken a beating against all the world's major currencies, they now have to convert significantly more in order to meet the costs associated with their international property such as maintenance costs, mortgage payments, utility bills and local taxes.

For example, in October 2008, £10,000 would have bought you €12,900. To receive the same amount of Euros today, a Brit has to transfer almost £2,000 more.



With Sterling and the Euro likely to be volatile in the coming months Mark Bodega, Director at HiFX recommends that people making regular currency transfers should set up a Regular Payment Abroad plan with a currency broker that allows you to lock into an exchange rate for up to 12 months ahead so you know exactly how much is being transferred every month.

'A Regular Payments Abroad plan also saves you forking out on commission and transfer fees. Banks typically charge up to £30 as a transfer fee on each and every transaction, up to 2% commission on the amount being transferred and, depending on the

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destination bank account, you may also be charged a further 0.5% receiving fee by the overseas bank,' he explained.

'Those who are uneasy about fixing the exchange rate and are more bullish about Sterling's future or those who are making international transfers on an ad-hoc basis should at the very least shop around for better exchange rates and compare the rates offered by their high street bank with a currency specialist, particularly one which offers an online service for smaller amounts of money,' he added.

HiFX, for example, has an Online International Money Transfer service that allows customers to quickly and securely transfer amounts of £250 to £50,000 at rates which beat both the high street banks and other international money transfer specialists.

The service is also the first to show real time, moving exchange rates. Customers can watch the live rate and choose when to make the transfer themselves and unlike other online transfer methods, there are no hidden charges. The HiFX Online International Money Transfer service offers on average savings of 3% of the amount transferred when compared to high street banks and other international transfer providers.

Cash in on rental opportunities

According to the research, almost 70% of holiday home owners are missing out on vital income by not renting out their overseas property. Almost half of those that do rent it out only do so to friends and family who traditionally pay less than other tenants.

Angela Southall, marketing manager from Owners Direct, a leading direct-from-owner property rental site and a HiFX partner, points out that holiday home owners really need to understand the trends specific to their location.

'Talk to neighbours, the local economic development office and estate agents about rental rates, which websites work for advertising their holiday home and the seasonality for tourists,' she said.

'If you decide to use a website to advertise your holiday home, put some effort into putting great pictures up and writing an attractive description. Put as much information as you can on your advert, be flexible and ensure that the character of your home is well represented through your advert,' she added.

Ensure your property is tax efficient

Overseas home owners have to pay ongoing taxes on ownership, such as local taxes or even tax on rental income. This is usually payable in the country where the property is located, but if you are a UK resident, such income also needs to be re-calculated into Sterling and is taxable in the UK, regardless of where it is paid, with any appropriate relief given in the UK for taxes paid abroad.

'Each country will tax the income according to its own rules, so sometimes more allowances are available abroad than in the UK or the tax rates abroad may be lower, but the higher tax liability will be due,' said Colin Vickers, director of Blevins Franks, a leading international financial advice group and HiFX partner.

He said there may be ways of reducing your tax bill, but whatever you do, you only pay tax when you make money. 'Spending money unnecessarily to save tax can often be a false economy; after all, why spend £100 to save £40?'

'It is important to make sure that you claim whatever allowances you are entitled to. Make sure you know the rules or employ someone to prepare the returns for you. Trying to do it yourself, if you don't understand the rules, can be a false economy,' he explained.

'People who take advice before buying their property abroad often manage to make their purchase more cost-effective than those who buy without taking advice. This is because advice starts at the beginning, with whose name the property should be in,' he added.



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