

## Choosing your buy to let mortgage as you start to think about retirement

We property investors are very good at gearing ourselves up to the hilt. We maximise the available mortgage so that we don't have to use too much of our own money and we get tax relief on all the interest.

But is that always the best way?

I suggest not. Later in life we will probably be looking for our properties to provide our retirement income. We can do this in two ways. Either by periodically selling off properties and living off the proceeds, or by using the net rent to pay our living costs.

Ultimately it is down to cashflow, and if you choose the second option, your cashflow is better if you pay off the mortgage than it is if you keep the mortgage.

Let me demonstrate with an example. I have left out management and maintenance costs to keep it simple, but they would be the same in either scenario.

Lets say you have six properties rented out at £500 per month, and they are all mortgaged with the mortgage costs at £300 per month, which isn't unrealistic at the moment. For simplicity, I will assume you pay tax at a straight 20%.

### Scenario 1

If you have mortgages, you receive £3,000 per month and pay out £1,800 in mortgage interest (on which you get tax relief).

So your net income is	£1,200
Less 20% tax	£ 240

You keep **£ 960**

### Scenario 2

If you have paid off your mortgages, you still receive £3,000 per month, but you pay out no mortgage interest.

So your net income is	£3,000
Less 20% tax	£ 600

You keep **£2,400**

Quite a difference isn't it!

Now I accept that a lot of people could live on £960, especially if they have paid off their own mortgage, but wouldn't £2,400 make life a little more comfortable?

You need to consider all factors when making your decisions. As I used to advise my accountancy clients, you should **never let the tax tail wag the commercial dog**. Whilst gearing up to the hilt gives you tax relief, you only save the tax element, you still pay the rest out. Remember compounding, how much are the mortgage lenders making over 25 years? Have you read the small print recently?

I for one, will be considering a move to repayment mortgages further down the line.