

# Selling a leasehold property – advice about service charge apportionment and retentions

Service charges are property-based so when a leasehold property is sold, the purchaser becomes responsible for the service charge accounts, including any existing or future debits or credits which may relate to the seller's period of ownership.

It is standard practice for the seller and purchaser to arrange for the outstanding service charge balances to be paid on completion of the sale, and also agree a "retention". This is a sum of money set aside by the seller to pay any service charges relating to their period of ownership but which are invoiced after the property has been sold.

The council doesn't get involved in negotiations about retentions or the apportionment of service charges between sellers and purchasers, but we have provided some information below which you might find helpful.

## **Apportioning service charges on completion**

Normally, the seller will pay the following charges on completion of the sale:

- all of the unpaid annual and major works service charges relating to previous financial years; and
- a share of the estimated annual service charges for the current financial year. This is calculated by dividing the estimated charge by 365 days and multiplying it by the number of days in the financial year that the seller owned the property.

Example of how to apportion the current year's estimated charge:

2014/15 estimated annual service charge: £1000

Property sold: 2 February 2015

$\text{£}1000 \div 365 \text{ days} \times 307 \text{ days (days from 1}^{\text{st}} \text{ April 2014 to 1 February 2015)} = \text{£}841.10$  which the seller pays. The purchaser pays the rest (£158.90)

When apportioning the current year's estimated service charge between sellers and purchasers, it's important to understand the council's billing cycle. The financial year runs from 1 April to the following 31 March, and invoices for annual service charges are issued every September i.e. six months into the financial year. The invoice combines the estimated service charges for the current financial year and the actual adjustment for the previous year (this will either be a credit or debit, depending on whether the actual charges were higher or lower than the estimate).

Depending on the completion date, the estimate for the current year's annual service charge may or may not have already been invoiced. If the estimate hasn't been invoiced yet, we advise you to include a sum in the retention agreement for this.

### **Retentions**

We advise you to include the following in the retention:

- A sum to cover any annual service charges which you've only received an estimated invoice for.
- If you've not received an estimated invoice yet for the current financial year, you'll need to include a sum to cover your share of the costs for this year. One way of calculating this is to take an average of the last three years' service charges, then divide this figure by 365 days, and then multiply it by the number of days in the financial year that the seller owned the property.
- Any major works that have been undertaken where you've received a section 20 consultation notice but you haven't received an invoice yet.
- You may wish to apply a small percentage increase to the figures outlined above.
- You may also want to consider getting the purchaser's agreement to refund you any credits relating to your period of ownership but which are applied to the account after you have sold the property.

**We strongly recommend that you obtain legal advice regarding retentions.**