

GUIDE TO LIMITED COMPANY BUY-TO-LET



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WHY SET UP AS A LIMITED COMPANY?

THE GRADUAL RESTRICTION IN THE TAX RELIEF LANDLORDS CAN RECEIVE WILL REDUCE OVER A FOUR YEAR PERIOD FROM APRIL 2017.

This change means that limited company set-ups could offer potential benefits to many property investors. In this guide we look at the key points you'll need to consider when deciding if setting up as a limited company is right for you.



THE ADVANTAGES OF LIMITED COMPANY FOR BUY-TO-LET PROPERTY INVESTMENTS

IMPROVED TAX EFFICIENCIES AND PLANNING

Holding property in a limited company may offer some tax benefits to certain people. For example, if you're a higher rate tax payer you could find that it is beneficial in terms of tax saving. When you own a property in your name the rental profit is taxed at your personal tax rate. Rental profits on properties held in a limited company are not taxed at your personal tax rate but at the current rate of Corporation Tax and you'll only be taxed on dividends from the company if the total of all dividends you receive exceeds £5,000 in each tax year. Tax on dividends is charged at the relevant tax rate, not the same rate as Income Tax.

If you plan to expand your property portfolio, it is possible to retain the profits within the company to fund future purchases without them being subject to Income Tax (until you decide to draw the profits out of the company).

As a director, you decide when to distribute profits to shareholders. This can help with your personal tax planning.

SIMPLER AND QUICKER THAN YOU THINK

Setting up a limited company takes just 20 minutes and can be done easily online. But we recommend you take expert advice from an accountant, or legal advisor before doing so (see 'How to set up a limited company').

FUTURE PLANNING

If you plan to pass your business on to family in the future, it is simpler to transfer a limited company than a privately held property. In this circumstance, as the property remains owned by the company, it could also be protected from Stamp Duty, Inheritance Tax and Capital Gains Tax liabilities

PORTFOLIO EXPANSION

Retaining profits within the company helps to protect them from crystallising tax liabilities, enabling you to expand your property portfolio quicker.

LIMITED LIABILITY

Limited company status means that your liability runs only to any investment that you make in the company (plus any personal guarantees that your lender requires).

THE DISADVANTAGES OF LIMITED COMPANY FOR BUY- TO-LET PROPERTY INVESTMENTS

- **NO CAPITAL GAINS TAX (CGT) ALLOWANCE**

When the limited company sells the property there is no CGT Allowance. An individual selling a property would be allowed £11,100 CGT Allowance (correct for 2016/17).

- **THE ADDITIONAL COST OF RUNNING A LIMITED COMPANY**

You'll have to factor in costs such as the preparation of accounts (a legal requirement), company tax and corporation tax calculations for HMRC, filing at Companies House, legal fees and annual auditing if applicable. Accountants may also charge a higher fee if preparing accounts for Companies House.

- **HIGHER MORTGAGE RATES**

Most lenders charge higher interest rates and fees to limited companies compared to individual buy-to-let mortgages.

- **A REDUCTION IN THE CHOICE OF LENDERS AND AVAILABILITY OF MORTGAGES**

Not all buy-to-let lenders offer mortgages to limited companies, and those who do tend to offer a smaller product range.







KEY QUESTION: SHOULD YOU PURCHASE A BUY- TO-LET PROPERTY THROUGH A LIMITED COMPANY?

IT'S A SIMPLE QUESTION, WITH A NOT SO SIMPLE ANSWER:

WHAT HAPPENS IF I BUY A BUY-TO-LET PROPERTY IN MY OWN NAME?

Buying a buy-to-let property in your name will leave you liable to tax on the rental income at your top rate which could be as high as 40% or even 45%.

This income would be lumped on top of your other income. You would be able to deduct all the costs of renting the property, including repairs and maintenance, and there is also the possibility of making a deduction of 10% of the rent which is called a 'wear and tear' allowance.

On the sale of the property, you will be liable to capital gains tax which would either be at 18% or 28% with

the first £11,000 tax free. There may also be the possibility of other allowances if, for example, you lived in the property at any time.

HOW COULD I BENEFIT FROM OWNING A BUY-TO-LET PROPERTY THROUGH A LIMITED COMPANY?

By owning a buy-to-let property through a limited company, the rental profits would be taxed at 20%. Therefore, if you were looking to grow your property investment portfolio, it may be more tax efficient to hold the growing portfolio in a limited company.

When you come to sell the property or properties the gain will be liable to corporation tax payable by the company (currently 20%) and the profits would be left in the company.



SO WHY CONSIDER LIMITED COMPANY BUY-TO-LET?

If you were to purchase a buy-to-let property in your personal name now a higher rate taxpayer who pays 40% tax with a rental income of £15,000 and a mortgage interest of £10,800 (66% of rental income) would see their profit fall from £2,520 in 2016/17 to £360 in 2020/21.

Below is the worked example of how the relief will be phased in:

	AS NOW	TRANSITIONAL RATES			NEW
	2016/17	2017/18	2018/19	2019/20	2020 ONWARDS
RENTAL INCOME	£15,000	£15,000	£15,000	£15,000	£15,000
MORTGAGE INTEREST	£10,800	£10,800	£10,800	£10,800	£10,800
REDUCTION IN MORTGAGE INTEREST ALLOWANCE	0% = 0	25% = £2,700	50% = £5,400	75% = £8,100	100% = £10,800
TOTAL RENTAL INCOME ON WHICH TAX IS PAID	£4,200	£6,900	£9,600	£12,300	£15,000
TAX AS 40%	£1,680	£2,760	£3,840	£4,920	£6,000
ALLOWABLE TAX RELIEF AT BASIC RATE (20% OF THE ANNUAL MORTGAGE INTEREST)	£0	£540	£1,080	£1,620	£2,160
TOTAL TAX PAYABLE	£1,680	£2,200	£2,760	£3,300	£3,840
PROFIT	£2,520	£1,980	£1,440	£900	£360

In the above example you would be £2,160 worse off between 2016/17 vs 2020/21. By forming a limited company, you could help reduce your tax liabilities and potentially be better off in the long term.



CAN I TRANSFER THE OWNERSHIP OF PROPERTIES I ALREADY OWN PERSONALLY TO A LIMITED COMPANY?

This is a question we are often asked. If you decide to transfer the ownership of the property this is considered a disposal and you would be personally liable to Capital Gains Tax.

There is also the stamp duty to take into account. This applies to properties with a value of greater than £125,000. It is often the case that the costs involved in carrying out this kind of transfer make the

exercise expensive and therefore not a straightforward decision. Therefore if you already own a property/properties you might like to consider retaining any existing properties personally. If however, you have a strategy of building a larger portfolio of properties over the longer term, and possibly build as an asset to pass onto future generations, it might be worth doing this in a limited company environment.



HOW TO SET UP A LIMITED COMPANY

Setting up a limited company is simple. You can register your company with Companies House online or by post. Online registration takes just 15 minutes and costs £12.

Here are the key things that you'll need when registering your limited company.

COMPANY NAME AND ADDRESS

- You'll need to create a unique company name (you can check it against the current register online at <https://beta.companieshouse.gov.uk/>)
- The address can be your residential address

DIRECTORS AND SHAREHOLDERS

- You need to appoint a minimum of one Director
- Additional Directors and/or a Company Secretary can also be added
- Each shareholder should be allocated a percentage share of the company
- Any shareholder with a holding greater than 25% is a Person with Significant Control (PSC)
- Each PSC's name, month and year of birth, nationality and service address will feature on the public register

DEFINITION OF BUSINESS ACTIVITY

- Some lenders require the company to be defined using the following Standard industry Classifications (SICs):
 - **68100**: Buying and selling own real estate
 - **68209**: Other letting and operating of owned or leased real estate
 - **68320**: Management of real estate on a fee or contract basis
- You should take advice on the type of company you are creating, including asking your tax adviser whether the company should be a Special Purpose Vehicle (SPV)

ONCE YOUR COMPANY IS REGISTERED

- You'll need to register for Corporation Tax within three months
- You'll need to set up a business bank account



RUNNING A LIMITED COMPANY

Many people think that limited companies are complicated and difficult to maintain. Whilst there are a few additional responsibilities, they can be easily incorporated into your business plan and require little effort relative to the potential benefits. The below outlines some of the key activities involved in running a limited company.

DIRECTORS' RESPONSIBILITIES

Directors have personal responsibility for some of the company's basic functions. As a director, you can outsource these functions to others, but you need to make sure that you have adequate oversight.

RECORDS AND ACCOUNTING

Accurate company and accounting records must be maintained. A 'Confirmation Statement' (previously Annual Return) must be submitted each year within 14 days of the company's anniversary of incorporation. Annual accounts and tax returns will also need to be submitted.

Active private limited companies need to keep records for three years. If you make changes to the company's name, address, directors' or shareholders' structure, you will need to notify Companies House and/or HMRC.

DRAWING FUNDS FROM THE COMPANY

There are several options for drawing funds from the company including, salary, expenses, benefits, dividends and Directors' loans.

The treatment of each for tax purposes is different. A tax adviser will be able to advise you on the most suitable option for your circumstances.



SEEKING ADVICE

When considering if a limited company set up is right for you. It is important to fully understand the advantages, disadvantages and your duties. We recommend that you contact either a tax or legal adviser prior to embarking on this course of action.

**FOR MORE INFORMATION OR TO SPEAK
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