



Should I put my
property in a
company?

To Let

Buy to let

Factsheet

**rouse**
Chartered Accountants

Putting property in a company

With the tightening tax rules on buy to let property many landlords are now considering putting their property into a company structure. There are advantages and disadvantages to doing this and in this factsheet we cover some of the key criteria for making this decision.

If you would like to discuss how we can assist you, please contact us on 01494 675321 or by email at info@rousepartners.co.uk

Below we consider some of the key advantages and disadvantages to putting your buy to let in a company structure.

Advantages of putting your property into a company structure

Tax and mortgage interest tax relief

Properties in a company attract a lower rate of taxation and the restrictions to tax relief on mortgage interest payments do not currently apply to companies. Corporation Tax is currently 19% (from 1 April 2017) and is likely to fall in future. This is in contrast to Income Tax rates (which can be up to 45%).

Limited liability

A company provides "limited liability" to the owners. However, the risk presented by property ownership is somewhat modest, and normal commercial risks should be adequately covered with appropriate insurance

Long-term planning and pension income

Company structures can be used to hold income until which time that it is required, such as for a pension income, when your personal allowance can be utilised.

Disadvantages of putting your property into a company structure

Upfront tax

If you move your property into a company, it will be deemed a disposal for capital gains purposes and you will have to pay Capital Gains Tax on any gains made since you bought the property. There will be stamp duty to pay on the transfer too.

Increased compliance work

You will need to carry out both company and individual tax compliance and reporting.

Two layers of tax

There will also be further tax to pay when you extract income from the company, whether via salary or dividend. You should also note that dividends (traditionally the most tax-efficient way of extracting cash from a property company), were hit with a reduction to the tax-free dividend allowance to £2,000 from 1 April 2017.

Borrowing difficulty

Some mortgage providers are unwilling to provide residential property mortgages via a company and others may not offer the same mortgage rates. There are however several banks with specialist departments to whom this is not prohibitive.

Yet more compliance

Every company or corporate entity owning UK residential properties worth over £500,000 must now file an ATED tax return and either pay the appropriate ATED charge or claim the appropriate relief.

Not able to use main home relief

Individuals can significantly reduce their Capital Gains Tax bills when selling their property by adopting it as their main home for a period of time prior to the sale. Property companies cannot do this.

Therefore, to make incorporation work for you it is likely that you will need to have, or be working towards a critical mass of buy to let properties, where your income covers the additional tax and compliance costs.

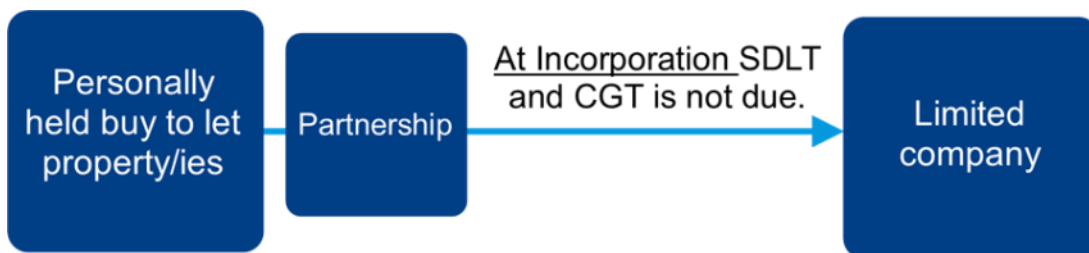
Using a partnership structure to facilitate incorporation

There is a potential solution to transferring your property to a corporate structure that doesn't leave you exposed to Stamp Duty Land Tax (SDLT) liabilities; using a partnership structure as an intermediary.

If we look at the incorporation of a bona fide partnership there are special rules that remove the charge to SDLT as long as the ownership proportions in the partnership and the new company are the same.

The partnership must be a bona fide partnership i.e. there must be a partnership agreement in place, a partnership bank account and genuine profit sharing. There are also anti-avoidance provisions in place that catch partnerships being formed solely for incorporation purposes meaning the partnership must be in place for a certain period of time.

The diagram below shows the process involved in using a partnership structure:



The property must be left in the partnership for a period time, during which the business will see a reduction in the mortgage interest relief it receives. It is therefore important to decide if this structure is right for you and allow time to incorporate the partnership before the full reduced relief comes into full affect from 2020.

How we can help

We are able to assist buy to let investors through reviewing the impact of the interest restriction on individuals and partnerships on future tax bills.

We can also advise on incorporation issues and your options, including obtaining clearances from HMRC where appropriate. Our experienced team can guide you through the process and ensure that you are meeting your compliance requirements.

There are many factors to consider when choosing a structure and we advise taking professional advice on your personal circumstances before making a decision.

Contact us to discuss how we can assist you.

Trusted advice, *imaginative solutions.*

It's the old adage that all accountants are the same, but ask yourself this; what kind of service would most add value to your personal or business position? In our opinion, the quality of advice and service is what separates a good accountant from a great one. This is where Rouse Partners can make a difference for you.

Our award-winning team make it their business to get to know you and your specific needs. Whether your goal is to grow your business, increase your personal wealth or improve your work-life balance, by understanding your challenges, we will address them together.

We also know how important it is for you to have a team that you can rely on for timely advice and reassurance. At Rouse, our people are our most important asset and we will select team members who offer an optimum mix of experience, specialism and knowhow. From your Partner, to your Tax Advisor, each team member will be accessible to you or your team and be proactive in seeking solutions.

At the heart of our way of working is a determination to think differently, to challenge the 'status quo' and to ask 'what if?'. Whether you are facing a complex tax, accounting or management situation, we are ready to find a solution.

Contact us today to discuss how we can support your personal or business tax needs:

t: 01494 675321

e: info@rousepartners.co.uk

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Rouse Partners LLP
55 Station Road
Beaconsfield
Buckinghamshire
HP9 1QL

t: 01494 675321
e: info@rousepartners.co.uk
www.rousepartners.co.uk

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