ROTHERHAM TAYLOR LIMITED
Chartered Accountants & Registered Auditors

LANDLORDS AND LIMITED COMPANIES – A SHORT GUIDE

The recent tax changes which have affected the buy-to-let sector, has prompted many landlords to consider a change of business structure.

Registering as a limited company has a number of advantages and it is a route that a significant number of residential landlords have already chosen to take. But there are also pitfalls for the unwary so it is important to weigh up the pros and cons to ensure you do not make costly errors.

LIMITED COMPANY STRUCTURE – THE PROS AND CONS

A property investor, like anyone going into business, needs to consider the most appropriate structure through which to operate. This may be by way of:

- Trust
- Limited company
- Limited liability partnership
- Personal ownership, either alone or jointly with others
- Pension scheme (for commercial property only)

Usually, personal or joint ownership will be the most suitable structure for smaller investors. For example, claims to rent a room relief, capital gains tax private residence exemption and furnished holiday let status will generally only be available for personal owners.

A company will probably be the right choice for larger investors who are planning to hold property ownership long-term for the benefit of future generations of families. A limited liability partnership or LLP is a corporate entity, very much like a limited company for legal purposes. However, it is taxed like a normal partnership as its profits are allocated to the partners and charged to income tax or capital gains tax, at the individual's marginal rate of tax.

One of the most significant potential savings for a landlord operating as a limited company relates to the taxation of profits. As a limited company, you will be subject to corporation tax, which is at a lower rate than income tax – currently 19 per cent.

> Although you will benefit from corporation tax rules, as a limited company there is no capital gains tax allowance when you sell a property and you may also have to pay dividend tax if you withdraw money from the company. Corporation tax on indexed capital gains in companies is taxed at 19 per cent, compared with capital gains tax which is taxed at either 18 per cent or 28 per cent depending on whether you are a basic or higher rate taxpayer.

It is worth remembering that many mortgages are geared to personal buy-to-let borrowing, so you might potentially face higher fees as a limited company.

That said, limited companies benefit from being able to deduct mortgage interest costs from their rental income before calculating their corporation tax. You need to compare this with the savings that can be made from personal tax reliefs. From April 2020, you can no longer deduct any of your mortgage expenses from rental income to reduce your tax bill. Instead, you'll receive a tax-credit, based on 20 per cent of your mortgage interest payments.

The transfer of existing properties into a limited company set-up also requires careful planning due to the potential capital gains tax liability and further stamp duty which you will need to pay. Tax efficiencies and the most advantageous company structure will depend upon your individual business circumstances.

> If all this has left you feeling confused about which option is right for you, don't worry – we are here to help. At Rotherham Taylor, we specialise in helping landlords maximise their profitability by helping them to choose the best business structure for their specific needs both now and in the future, as their portfolio expands.