

Buying property through an Investment Limited Company

One of the questions most commonly asked by landlords is whether to buy property in their own name or through a limited company.

Unfortunately, there is no simple answer to this question and the choice you need to make will ultimately depend on a number of factors surrounding your particular circumstances, for example, how long the properties will be invested, when you will need to extract the cash, the potential tax savings and how it fits in with your overall tax and wealth planning. There are however, a number of advantages and disadvantages that can help in your decision-making.

Benefits of buying property through a company

- Income and gains are normally only taxed at 21% in a company (22% with effect from 1 April 2010), compared with up to 40% if the property is owned personally. However, if the company's profits, including gains, exceed £300,000 then a higher tax rate will apply - but you could still save on your tax bills
- You can make tax free withdrawals from any equity you provided to purchase the property
- You will have limited liability, providing you have not given any personal guarantees to the bank. This restricts the amount you might have to find should the business fail
- It can be easier to pass wealth down the generations
- A purchaser of the shares would only pay 0.05% Stamp Duty Land Tax (SDLT) on values exceeding £1,000 on the shares compared with up to 4% SDLT on the purchase of a property
- A company may be perceived as more solid and substantial than a sole trade
- The company is a separate business for VAT purposes - useful if your property letting is part of a VAT taxable business

So why doesn't everyone do it?

- There can be a double tax charge on the extraction of funds – although this may be avoided by careful planning
- You will have to pay income tax on benefits in kind if you, or any of your family, occupy any of the company property and do not pay a full rent
- HMRC resist any claims for rollover relief on transfers of existing properties into companies on incorporation on the basis that it is not a transfer of a business
- You need to file annual accounts and returns with Companies House, which will incur additional compliance costs and means that your accounts results are publicly available
- If the figures are extremely large, then the company might need an audit
- The deadlines for submitting accounts and tax information are tighter

If you do decide to go ahead and use a limited company

The transfer of existing properties into a company would be treated as a sale by you to the company and you would be liable to Capital Gains Tax (CGT) and the company to SDLT. Therefore it is generally advisable to retain existing properties in personal ownership.

Ideally, you should put cash into the company and the company will use it to buy new properties. The first part of the cash will cover the initial share capital amount (anywhere between £10 and £1000 for limited liability purposes) and the balance can be your loan to the company. This is beneficial because the company can repay the loan to you, tax free, as and when it has cash available. However, any further cash you withdraw from the company once the loan has been repaid, would be taxable on you.

It may be beneficial for the shares to be owned by both parties to a marriage / civil partnership to ensure maximum tax benefits, both when taking dividends and when selling the shares.

Sales of properties

Companies can claim indexation relief based on the original costs and improvement costs to the date of sale.

Sale of shares

If you are thinking of retiring, or giving up the property investment business, then this is relatively easy if you own the properties outright, although there will be a CGT cost.

If the assets are in a company, it is a question of how you can get your cash out in the most tax efficient way. Given the potential double tax charge on the company selling the property, the alternative is to sell the shares in the company. These are personally owned assets and you can use your annual CGT exemption to reduce the gain. For married couples / civil partners, the exemption is maximised if each party holds the shares.


Entrepreneur's Relief

This may be available in certain limited circumstances – see Entrepreneur's Relief factsheet.

Conclusion

As a rule of thumb, if you are looking to build up a large portfolio for the longer term, then a company may be the answer for you - otherwise it's probably best to retain personal ownership. It is important to consider your long-term strategy at the outset because once you have started to build a personally owned portfolio, the tax advantages of using a company may be severely restricted for those properties. As ever, advice should be sought based on your specific circumstances, please contact:

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