M+A
Partners

+ Chartered Accountants
+ Tax Specialists
+ Business Advisers

Buy-to-let:

Company or personal?

M+A Partners has been helping clients to grow their businesses and achieve their ambitions for over a century - and we're immensely proud of our history.

We are a forward-looking firm with an emphasis on innovation, new technology and finding pioneering ways to give our clients the best possible service.

Our Norfolk-based firm is led by nine partners who are some of the most high-profile and well-respected experts in their fields locally, supported by a talented team of over a hundred staff.

We have a well-earned reputation for building excellent relationships with clients and the wider business community. That has always been, and continues to be, our number one priority.

Buy-to-let properties can be purchased and managed as an individual (either solely, jointly with others or in formal partnership) or through a limited company.

If the intention is to rent out one or two properties and there is an immediate income requirement, setting up a limited company is unlikely to be the right route. However, if a larger property portfolio is to be established over time and the profits can be left to accumulate, then it may well be beneficial to create a limited company from the outset.

Company ownership

Buying rental properties through a limited company offers full tax relief on finance costs such as mortgage interest and mortgage arrangement fees, access to potentially lower tax rates and flexibility for planning, including for inheritance tax. This comes at the cost of increased compliance and reporting requirements.

+ Mortgage interest relief

Limited companies can offset all their mortgage interest, and other finance costs such as mortgage arrangement fees, against profits from their rental income before paying corporation tax. This is a significant advantage over the restricted basic rate credit available to individual landlords.

+ Corporation tax

With effect from April 2023 small companies with profits of less than £50,000 pay tax at 19%. The main rate of corporation tax is 25% where taxable profits are £250,000 or more. Companies with profits between £50,000 and £250,000 have a marginal rate of 26.5% on profits over £50,000.

Companies do not pay Capital Gains Tax (CGT) when they sell a property, instead corporation tax at the rate outlined above is paid.

+ Taking an income

Typically, a landlord will loan the company the funds needed to buy the first rental property. Usually this will be for the deposit needed. This loan can be paid back, tax free, as and when the cash is available.

As the company owns the property, the rental profits belong to the company and are subject to corporation tax as above. To access the rental profit for personal use, a form of remuneration needs to be paid, which gives rise to a second personal tax charge, but may be deductible for corporation tax.

There are various remuneration options such as salary, dividends, provision of assets such as company cars (see our 'Tax and electric vehicles' factsheet) or pension contributions. Each comes with tax consequences, and the best option will depend on personal circumstances. As the directors of the company are in control of the remuneration policy, they can determine the most tax efficient route for profit extraction, both in terms of form of remuneration and timing.

Higher rate taxpayers looking to pay themselves dividends can end up paying both corporation tax of 19% and a personal income tax liability of up to 39.35% on any dividend.

+ Building a portfolio

If the aim is to invest in several buy to let properties and there is no need to draw much, or any, income from the rent, the company structure can be an attractive option.

Rental profits can be retained within the company for future reinvestment for example, without becoming subject to personal taxes or extraction of profit can be timed to minimise them.

+ Family tax planning

A company can be a useful structure for those looking to pass on their property portfolio to the next generation. It is typically more straightforward and cost effective to transfer company shares to family members compared to transferring properties, or interests in property.

Share valuation discounts may also be applicable where the company ownership is split amongst family members, reducing the inheritance tax exposure of the shareholders. This is a complex area of tax and advice should be sought.

+ Incorporating an existing property portfolio

It is possible to set up a limited company and transfer ownership after purchasing buy-to-let property, although the process is not as straightforward as setting one up from the outset.

The property must be transferred to the company at the market value. As an individual, the owner may be liable to CGT, while the company may have to pay Stamp Duty Land Tax.

Despite these extra charges and legal requirements, the long-term tax benefits may still outweigh the initial costs arising on transfer and advice should be sought if you are considering this option.

Personal ownership

For buy-to-let landlords looking to use their rental profit as income to live on, purchasing as an individual may prove to be the more tax efficient solution.

+ Mortgage interest relief

Individual landlords receive a tax credit based on 20% of allowable interest, replacing the more generous deductions that had been allowable in earlier years. As a result, landlords' taxable income is based on rental profit without allowance for finance costs.

+ Income tax

Landlords are liable to income tax on rental profits in the tax year in which they arise. The rental profit will be added to the landlord's other taxable income to determine the tax band:

- For income above £12,570 and below £50,270, 20% tax;
- For income above £50,270 and below £125,140, 40% tax;
- For income above £125,140, 45% tax;

If total taxable income is above £50,000 the High Income Child Benefit Charge comes into effect. Any Child Benefit claimed is repayable entirely once taxable income reaches £60,000.

For taxable income between £100,000 and £125,140, the landlord loses their personal allowance, and the effective rate of tax payable on income falling into this band is 60%.

+ Capital Gains Tax

Individuals are entitled to an annual exemption of £6,000 worth of capital gains in the 2023/24 tax year. Capital gains on residential property are subject to CGT at 18%, where the gain falls within the basic rate band and 28% where the gain falls into higher rates. This represents an 8% surcharge on the standard CGT rates of 10% and 20% applicable to other assets, such as shares.

HMRC require online reporting and payment of CGT on the disposal of UK residential property within 60 days of completion.

+ Taking an income

Individuals are taxed on rental profits in the tax year in which they arise. This contrasts with operating through a limited company where the personal tax charge arises when remuneration is taken.

+ Preferential mortgage rates

Personal ownership typically attracts preferential mortgage rates and lower fees than through a limited company. Arrangement fees, which can either be paid up front or added to the mortgage, also tend to be lower when buying as an individual.

Seek advice from your mortgage broker.

How M+A Partners can help

This factsheet is designed to provide an overview of the key differences between owning a buy to let property through a limited company and as an individual. There are many variables that will influence your decision, and it can be helpful to seek professional advice when it comes to assessing your own circumstances and tax position.

At M+A Partners we have an experienced tax team who will be able to assist with any queries you might have when starting out on your buy to let journey.

Simply contact our experts - Clare Goodswen or Sam Holloway or email enquiries@mapartners.co.uk and we will be happy to help.

Clare Goodswen - Partner

01603 227600

clare.goodswen@mapartners.co.uk

Sam Holloway - Senior Tax Manager

01603 227600

sam.holloway@mapartners.co.uk

MA Partners LLP

7 The Close Norwich
Norfolk NR1 4DJ

2 Cyprus Court Queens Square
Attleborough Norfolk NR17 2AE

12 Church Street Cromer
Norfolk NR27 9ER

01603 227600
enquiries@mapartners.co.uk

mapartners.co.uk

mapartnersuk

M+A Partners