

The buy to let investor: is a Limited Company the way to go?

A buy to let landlord's property interests can be represented by either a single capital investment or a thriving, ongoing business. However, whichever scenario applies, changes to legislation could have a dramatic impact on their finances.

From 1st April 2016 the amount of stamp duty levied on buy to let purchases which completed on or after that date increased, while from 6th April 2017 changes to tax relief given against finance costs for these properties began to decrease.

Stamp Duty

From 1st April 2016 stamp duty on buy to let properties increased according to a scale of values. It is payable on the portion of the value of the property that falls within each band:

- ▶ up to £125k: 3%
- ▶ £125k to £250k: 5%
- ▶ £250k to £925k: 8%
- ▶ £925k to £1.5m: 13%
- ▶ £1.5m and over: 15%

Income Tax Relief

From 6th April 2017 interest on a buy to let mortgage – referred to as “finance costs” by HMRC – is no longer simply deducted from property rental income to calculate profit on which income tax calculations will be based. From April 2020, no finance costs will be deductible from property income for the purposes of calculating the profit on which tax will be charged. Instead you will be able to claim tax relief against your tax liability at the basic rate of tax on the finance costs.

To help the transition from one mechanism to another, a sliding scale of the proportion of finance costs that can be deducted from property income to calculate profit on which tax will be charged has been introduced from April 2017.

- ▶ **2017-2018:** 75% of finance costs can be deducted from property income to calculate the profit on which tax will be calculated, with the remaining 25% being available to claim as a basic rate tax reduction from income tax liability.
- ▶ **2018-2019:** 50% of finance costs can be deducted from property income to calculate the profit on which tax will be calculated, with the remaining 50% being available to claim as a basic rate tax reduction from income tax liability.
- ▶ **2019-2020:** 25% of finance costs can be deducted from property income to calculate the profit on which tax will be calculated, with the remaining 75% being available to claim as a basic rate tax reduction from income tax liability.
- ▶ **2020-2021:** No finance costs can be deducted from property income to calculate the profit on which tax will be calculated. Tax relief will be available to claim on the finance costs as a reduction in your tax liability at the basic rate tax.

Source: www.gov.uk/government/publications/restricting-finance-cost-relief-for-individual-landlords/restricting-finance-cost-relief-for-individual-landlords

Your buy to let landlord would be well advised to get specialist tax advice before proceeding with their buy to let investment.

Continued overleaf.

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The Limited Company option

A Limited Company may be a more tax efficient way of owning buy to let properties. Your customer's accountant or solicitor will be able to advise them on the most appropriate business structure for them. They will also be able to offer guidance on the financial implications of their choice, including tax liability.

A Limited Company is an independent legal entity responsible for everything it does, including managing its own finances. Any profit, after taxes are paid, belongs to the company. It can distribute these after-tax profits among the shareholders who own it.

A Limited Company has to be registered with HMRC and at Companies House. To do this you will need:

- ▶ a company name
- ▶ a company address
- ▶ at least one director: doesn't have to be a shareholder
- ▶ at least one shareholder: doesn't have to be a director
- ▶ a Memorandum of Association
- ▶ Articles of Association: written rules about how the company is run
- ▶ details of the shares and rights attached to them.

Tax liability is driven by the ownership of a property portfolio:

- ▶ the profits a Limited Company derives from property investments are subject to corporation tax
- ▶ the profits an individual derives from property investments are subject to income tax
- ▶ from 6 April 2016, dividends received by a shareholder from a Limited Company are subject to a dividend tax. After a £5k allowance, basic, higher and additional rate tax calculations apply. Please note, from April 2018 this allowance will be reduced to £2k; above this allowance the tax you pay depends on which Income Tax band you're in. Please see table below:

Basic rate: 7.5%

Higher rate: 32.5%

Additional rate: 38.1%

Careful control over how much income is drawn from the company by its shareholders could reduce tax implications for shareholders.

For more information about setting up a Limited Company, visit: www.gov.uk/limited-company-formation/overview

How Precise Mortgages' products could help

Whatever your buy to let customer's plans may be, Precise Mortgages could have the product to help them. From aspiring to professional landlords, one property or a whole portfolio, we understand how the buy to let sector works and have developed a range of products to suit even the most complex cases.

All of the features you would expect of a Precise Mortgages product are there, but our insight into the market means we can also consider adverse credit history or offer up to a 35 year term for applicants aged up to 80 at application.

With specialist products designed exclusively for Limited Companies and HMOs, we're here to help.

Limited Company buy to let criteria highlights

- ▶ **Loan size:** up to £2m available at 60% LTV, £1m to 70% LTV, £750k to 75%, £500k to 80% LTV
- ▶ **Portfolio:** up to 20 properties to a value of £5m with Precise Mortgages (including buy to let loans which the individual has guaranteed), unlimited properties with other lenders
- ▶ **Maximum term:** 35 years (maximum guarantor age at application 80 years)
- ▶ **Ownership:** newly formed SPVs accepted, as well as personal to Limited Company with equity gifts and capital raising
- ▶ **Credit history:** adverse credit considered, refer to the HMO and Limited Company product guide on our website for details.
- ▶ **HMO:** applications for HMO properties considered
- ▶ **Acceptable SIC codes:** 68100, 68320, 68209
- ▶ **Rental cover:** Interest coverage ratio (ICR) of 125%.
- ▶ **Other products:** Limited Company bridge to let also available

For full information about the whole range of buy to let products take a look at our product and criteria guides on our website or call our Intermediary Support Team on 0333 240 6159.

The above information is based on our current understanding of information released by HM Treasury. The way interest is taxed depends on an individual's circumstances and may change in the future. Your customer will need to obtain specialist tax advice.