



Sapphire  
ACCOUNTING

# Using a Limited Company for Buy to Let Properties

## What is a Special Purpose Vehicle (SPV)?

An SPV is a limited company that generates all its revenue from rental income from residential investment property.

## Should I set up a limited company for a Buy to Let property?

There is not a simple answer to this question. For each case, the response could differ depending on your personal circumstances, future intentions, and the availability of mortgage finance to Limited Companies for the purchase of Buy to Let properties.



# Advantages

## Higher tax relief

From 2017 to 2020 the amount of Buy to Let tax relief individual landlords can claim back will be progressively cut from a maximum of 45% to 20% for top rate taxpayers.

However, this change does not affect Limited Companies. Therefore, if you are a higher rate tax payer, the tax payable via a Limited Company will be lower than tax on your individual income.

## No tax on dividends up to £2,000 for individuals

Until 5 April 2017, the Dividend Tax Credit has been replaced by a new tax-free Dividend Allowance of £2,000. This means you can potentially receive tax free dividend income from the investment properties.

## No income tax when reinvesting profits to secure further properties

You could grow a buy to let portfolio more quickly within a Limited Company as there will be no income tax on the retained profit, thus allowing more cash to re-invest.

Although corporation tax is payable on trading profits (19% from 2018/19), this is lower than the higher income tax rate (40% for £50,000 to £150,000 2018/19).

## Personal funds can be drawn back out of the company

Any advances you make to your company (e.g. the mortgage deposit) can be drawn back out of the company by way of Directors Loan.

## Lower mortgage rates

Most lenders charge lower interest rates and fees for Limited Companies compared to individual Buy to Let mortgages.

# Disadvantages

## **No Capital Gains Tax (CGT) allowance when the company sells a property**

whereas individuals selling a property would have £12,300 CGT allowance (2020/21)

## **Additional cost of running a Limited Company**

Such costs include the preparation of accounts, corporation tax calculations for HMRC, filing at Companies House, legal fees etc, although we can take care of all of this for you.

## **Reduced choice of lenders and mortgages**

Many lenders do not offer mortgages to Limited companies, and often if they do, the product range is much smaller.



# Transferring into a company after individual purchase

Assuming you have purchased a property as an individual you will need to transfer the ownership of the property to your limited company. To do this your limited company will need to 'buy' the property from individual at the market rate.

It will also be necessary to transfer or settle the mortgage and this may, depending on your mortgage, result in early settlement or other fees.

## How Sapphire can help

- Sapphire can offer a made to measure service dependent upon your needs.
- Our services include the preparation of annual accounts and confirmation statements, corporation tax calculations for HMRC and filing at Companies House.
- Access to our advisors – we know a variety of advisors who can help you get a mortgage in the company or individually.

**Got a question?**

**We're more than happy to help.**

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