

Holding Buy-to-Let Property through a Limited Company by Clear House Accountants

What you need to know

Constant tax changes and HMRC's stringent tax collection measures mean property ownership as buy to let has become a labyrinth of legislation's, rules and complicated measures, What are the key things you need to be aware off.



LTD'S ARE SUBJECT TO CORPORATION TAX

- Letting is a business for corporation tax purposes.
- Profits and gains on disposal are taxed at Corporation Tax rate (19% for FY2017-19).
- The rate was maintained at 19% rather than reducing it to 17% from 1 April 2020.
- The rate will remain 19% for the FY2021.



A good Property Accountant can help you ease the burden of complicated compliance.



DISPOSAL OF PROPERTY IS ALSO SUBJECT TO TAX



- An indexation allowance is available to companies, while tax due is at corporation tax rates. The indexation allowance is frozen at 31 December 2017 for disposals on or after 1 January 2018.
- Payment date for tax is subject to ordinary corporation tax payment deadlines.
- If proceeds are to be extracted by owner of LTD there will be a further charge to tax for the individual shareholder through his personal return.
- Since April 2013 gains from property that is subject to the Annual Tax on Enveloped Dwellings regime, will be subject to ATED capital gains tax, charged at 28%.



OWNER CAN EXTRACT FUNDS FROM THE COMPANY

Funds can be extracted but there are two considerations:

Income tax Consideration

- There will be a potential double tax charge when profits are extracted as dividends by higher rate taxpayer, or by basic rate taxpayer (from April 2016).
- Owners can control dividend payments. So they have the flexibility of planning extractions.

Capital gains tax

- Profits may be extracted by closing down the company (provided that assets less than £25k).
- Unlimited profits may be extracted as a capital distribution on liquidation subject to transactions in securities rules.



LOSSES ARE NOT OWNED BY THE OWNER



- Losses are locked into the company and cannot be offset against the owner's other income.
- Losses can be offset against total company profits of the current or future years, as long as the rental business continues.



A good London Accountant can help you plan effectively to reduce taxes.



ANNUAL TAX ON ENVELOPED DWELLINGS (ATED)

- The ATED regime applies to high value residential properties held by non-natural persons (e.g. a company). However, there is an exemption from the charge when the property is let on commercial basis.
- From April 2015 properties with a value of £1 million or more are affected, from April 2020 this fell to £7,500.



SDLT, INHERITANCE TAX & VAT



- SDLT is Charged on property purchased from or gifted by an individual to their connected company at market value.
- Shares in a Property Holding Company given after death of Shareholder will be accountable to inheritance tax.
- VAT, Income from property letting is exempt from VAT with the exception of commercial letting which is standard rated if the company has opted to tax the building.



Holding Buy-To-Let has become a labyrinth of legislation's, rules and complicated measures. Support from a good Adviser can make all the difference.