



KRD Mortgage Advisers

Thinking About Setting-up A Buy-To-Let Limited Company?



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Why set-up a buy-to-let limited company?

As result of changes in legislation over recent years, private landlords operating as individuals have seen an increase in their tax liability as a direct result in changes in buy-to-let tax relief and, because of this, there has been growth in the number of limited companies being established for the purpose of managing rental portfolios.

What are the advantages of using a limited company for a buy-to-let portfolio?

Well, given the above, landlords who have set up limited companies have not been affected by those tax change for individual landlords introduced in 2017 – especially those in higher and additional rate tax bands.

In additional, a limited company are treated in law as a separate legal entity, thus ring-fencing the personal liability of the individual landlord in terms of financial dealings.

So, are there are any disadvantages?

Whilst establishing a limited company undoubtedly has its attractions, it does mean that the choice of buy-to-let mortgage products available is more restricted, and may come at higher interest rates.

In addition your limited company's accounts will become more complex, the company must pay corporation tax on its trading profits (currently 19%), and a landlord who does incorporate as a buy-to-let limited company will have to pay stamp duty on the properties they currently own when these are sold or transferred to the company.

Landlords who use a limited company could pay out more than they will immediately gain, this being due to Buy-to-let mortgages for limited companies typically attracting higher interest rates than those for individual landlords. Transferring a landlord's property from an individual's (or couples') name to that of the business makes them liable for stamp duty

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How to set up as a buy-to-let limited company

Firstly, you must 'incorporate' or register as a limited company with Companies House. This is a low cost and relatively simple process which you can do online. Visit www.gov.uk/company-registration.

That said, if you are considering this step we would always advise you to talk to your solicitor or your accountant.

You'll need to provide your company name, it's address, your own details as the the director of the business, together with details of the company's shares and shareholders.

You will need to say what the company does, and you will also need to provide your company's 'standard industrial classification' (SIC) code which can be found at: www.gov.uk/standard-industrial-classification

Once your limited company is set up, you'll need to register for corporation tax, or ask your accountant to do this for you. This will again need to be done through Companies House and it will require the 10-digit 'unique taxpayer reference' (UTR), that will be sent to your company address within a few days of its becoming incorporated.

You will then be required to register for corporation tax within three months of incorporation, and you will face a penalty, if this registration is late. You'll also need to tell HMRC your company's registration number, the date you started to do business (your company's first accounting period will start from this date), and the date your annual accounts will be made up to.

Once completed you will be operating as a limited company for tax purposes and you will now pay corporation tax on your company's profits. This also means that if you already have a portfolio, you will need to start the process of transferring those over to your company. Again, we would adviser you to take specialist advice in this area.

Call us now on **0800 080 7653** and take advantage of our free consultation to see if we can help you.

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Can limited companies get a buy-to-let mortgage?

The answer is of course yes, although you may need to deal with lenders who specialise in the field, and this is where we come in, because we are used to working in this particular space.

More traditional lenders (banks etc.) prefer to focus on standard mortgages, so it will almost certainly need to engage the services of a mortgage broker, who has a broader view of the market, and one used to, and comfortable working with specialist lenders and with niche products.

Please note that, if you have an existing buy-to-let mortgage on the property, there are certain complexities involved when changing from an individual to a company arrangement, this again, is where specialist knowledge comes in handy.

Some lenders may well be prepared to transfer an existing mortgage over to the limited company when the property is transferred, but occasionally they may not. As such, it may be necessary to remortgage, and obviously this will incur costs. So, be prepared, seek advice and talk to your lender before you decide to make the move.

How do I find a BTL mortgage for limited companies?

As discussed above, not all Buy-to-Let mortgages are available to Limited Companies, so you will be looking for more specialist products, and lenders. That said, as using limited companies has become more popular more lenders have entered this marketplace, and more products are now available.

This means it has become easier for newly incorporated landlords to find a wider range of products and lenders to choose from, depending on their specific needs. We can help you to research and target the best deal for your business, as well as advising you on whether this is the best route for you to choose.

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Buy-to-let tax relief changes

Prior to April 2017, individual landlords could deduct their entire mortgage interest costs as expenses against the rental income earned. Tax was then paid at their personal tax rate on any residual profit.

However, the Government has been reducing this tax relief in 25% increments since 2017, to the point where this relief is no longer available. In addition, the Government also introduced a 20% tax credit against the proportion of the mortgage interest which is not tax deductible.

Higher-rate taxpayers will see the greatest increases, as the tax credit only provides a refund of 20% and not at the higher or additional rates of tax as existed before 2017.

Another consequence of the changes is that landlords now need to declare a greater level of income (their profit from their rental properties) and this could see some move into a higher income tax bracket .

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KRD Mortgage Advisers

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All calls are recorded for training and monitoring purposes to ensure that regulatory standards are met and to evidence any business transaction that may take place.