

## Is it worth having a limited company?

Properties can be held in either in individual name(s) or in a limited company. They can also be held in trusts or non-domestic properties can be held in self-administered pension schemes which are not dealt with here.

Until 8th July 2015, unless you intended to hold the properties for a long period and did not need to use the income, we would not have recommend holding your properties in a limited company. Because of the changes made in the Budget on 8th July 2015, this now needs to be considered on an individual basis as it will depend on the amount of interest paid in each case.

From 6th April 2017 there is a gradual reduction in the relief available to higher rate taxpayers for loan interest paid. Consideration should be given to operating a limited company or transferring ownership of the property to a lower earning spouse/civil partner.

From 6th April 2016, the dividend tax credit is being removed but dividends will be taxed at either 7.5%, 32.5% or 38.1% depending on the level of income. There will be a separate dividend allowance of £5,000. At this stage we are not certain whether there would be some restrictions for higher earners.

Corporation tax rates are set to fall from 20% to 18% by 2020.

Care needs to be taken if you already own a property and you are thinking of transferring it to a limited company as this could crystallise a Capital Gains Tax liability.

Below is a table indicating the tax implications of owning properties in a company compared with individual names for 2015/16 and 2020/21. It assumes net income before interest of £25000 with interest paid of £15000 to give a profit of £10,000 and assumes a gain of £150,000 after 10 years of owning a property. There are implications if the rental income or dividend causes you to cross a tax rate band. Remember up until 5th April 2016, a dividend also carries a non-repayable tax credit so if you pay yourself a net dividend of £9,000 this is taxable income of £10,000. After 5th April 2016, there is no tax credit on dividends as stated above. If your total income is more than £100,000, then your personal allowance is withdrawn by £1 for every £2 of income over this figure.

### Limited company owns the property and it makes no distributions

The green lines (2 and 5) indicate the net income and net gain respectively after corporation tax which would be accumulated within your limited company, provided you do not to draw out any income or gains.

### Property in your name and no limited company

The amber lines indicate amounts retained by you as an individual depending on your tax rate. Lines 1 and 4 show the after tax income and the gain retained by you respectively if you owned the property yourself and there was no limited company.

### Limited company owns the property and it distributes all its profits

Line 3 shows the net income you would receive as an individual if your limited company owned the property and it distributed the income to yourself as a dividend. Line 6 shows the net gain which you would receive if you wanted to keep the company going (because it owned other properties) and line 7 shows the amount which would be received if you were to liquidate the company and distribute the assets.

So, if you require the income personally, then the amber lines show that apart from a 45% taxpayer, more net income is received as an individual rather than from the limited company in 2015/16. However in our example, both higher rate and additional rate tax payers are considerably better off owning a property in a limited company rather than as individuals in 2020/21 when the loan interest restrictions are in full operation. Some taxpayers with high borrowings could see their tax liabilities increase substantially.

**AS ALREADY STATED EACH CASE WILL BE DIFFERENT DEPENDING ON THE LOAN INTEREST PAID SO ADVICE SHOULD BE SOUGHT, BEFORE SETTING UP A LIMITED COMPANY.**

The rules for Capital Gains are more complicated because a company can take advantage of indexation relief. It does depend on how long the property is held and inflation in that period, so each situation needs to be looked at on a case by case basis.

The examples are for individuals. Couples may have different income tax rates and they have two Capital Gains Tax exemptions (currently £11,100 each).

### Other Factors to be taken into account

If you require a loan, this may be more difficult to obtain in a limited company.

Limited companies are required to prepare statutory accounts and file accounts with Companies House with potentially increased administrative costs.

Shares can be transferred to family members making use of the Capital Gains exemptions although there are valuation issues.

Dwellings which are currently worth more than £1million and are held in a limited company are liable to the Annual Tax on Enveloped Dwellings charge which starts at £7,000 pa and increases to £218,200 pa for properties worth more than £20million. The charge will apply to properties worth over £500,000 in 2016/17.

<b>INCOME</b>		<b>2015/16</b>		
<b>Individual rate of income tax</b>		<b>No other Income</b>	<b>Basic 20%</b>	<b>Higher 40%</b>
<b><i>Individual Interest paid £15,000 net surplus £10000 2015/16</i></b>				
Net rental income after expenses		10000	10000	10000

Income tax (Personal allowance £10,600)	0	2000	4000 *
* Does not include loss of Personal Allowance above £100,000			
<b>1 Net amount received by individual</b>	<b>10000</b>	<b>8000</b>	<b>6000</b>
<b>Company (profits &lt; £300,000 up to 31/3/2015)</b>			
Net rental income after expenses	10000	10000	10000
Corporation tax	2000	2000	2000
<b>2 Distributable profits/retained by company</b>	<b>8000</b>	<b>8000</b>	<b>8000</b>
<b>Pay dividend to individual shareholder</b>			
Higher/Additional rate tax on dividend	-	-	2000 *
* Does not include loss of Personal Allowance above £100,000			
<b>3 Net amount received by individual</b>	<b>8000</b>	<b>8000</b>	<b>6000</b>

## INCOME

2020/21

Individual rate of income tax	No other Income	Basic 20%	Higher 40%
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### Individual Interest paid £15,000 net surplus £10000 2020/21

Net rental income after expenses	10000	10000	10000
Income tax (Personal allowance assumed £12,500)	0	2000	7000 *
* Does not include loss of Personal Allowance above £100,000			
<b>1 Net amount received by individual</b>	<b>10000</b>	<b>8000</b>	<b>3000</b>
<b>Increase in tax payable from 2015/16 to 2020/21</b>	<b>0</b>	<b>0</b>	<b>3000</b>

### Company

Net rental income after expenses	10000	10000	10000
Corporation tax	1800	1800	1800
<b>2 Distributable profits/retained by company</b>	<b>8200</b>	<b>8200</b>	<b>8200</b>

<b>Pay dividend to individual shareholder</b>			
Tax on dividend	240	240	1040 *
* Does not include loss of Personal Allowance above £100,000 Assumes £5000 dividend allowance available in full			
<b>3 Net amount received by individual</b>	<b>7960 0</b>	<b>7960</b>	<b>7160</b>
<b>Increase/(Decrease) in tax payable from 2015/16 to 2020/21</b>	<b>240</b>	<b>240</b>	<b>(960)</b>

## CAPITAL GAINS

Capital gains are more complicated because companies claim indexation relief but individuals cannot, so it is more difficult to compare.

As an example, let's consider a property bought for £150,000 and sold ten years later for £300,000. It is assumed that Retail Price Index inflation is running at 5% per annum. The indexed cost value at this rate after ten years would be £244,350. The total income of the basic rate tax payer is assumed to be £20,000 and the higher rate tax payer is £60,000.

Individual rate of income tax	No other Income	Basic 20%	Higher 40%
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### *Individual with £10,000 rental income in the tax year of disposal*

Gain (and no other gains in tax year)	150,000	150,000	150,000
Capital Gains Tax (31,785 / 22,385 / 0 / 0 @ 18%)	35,714	36,653	38,892
<b>4 Net amount received by individual</b>	<b>114,286</b>	<b>113,347</b>	<b>111,108</b>

### *Company*

Gain before indexation allowance	150,000	150,000	150,000
Corporation tax	11,130	11,130	11,130
<b>5 Distributable profits/retained by company</b>	<b>138,870</b>	<b>138,870</b>	<b>138,870</b>

### **Either:** Pay dividend to individual shareholder

Higher/Additional rate tax on dividend	27,781 *	30,896 *	42,172 *
* Based on income of £0/£20,000/£60,000/>£150,000			
<b>6 Net amount received by individual</b>	<b>111,089</b>	<b>107,974</b>	<b>96,698</b>

### **Or:** Wind up the company and distribute its assets \*

Capital Gains Tax (assuming no other gains)	32,596	33,537	35,775
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(31,785 / 22,385 / 0 / 0 @ 18%)

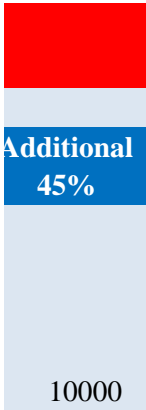
\*There would also be liquidator fees to be paid

<b>7</b>	<b>Net amount received by individual</b>	<b>106,274</b>	<b>105,333</b>	<b>103,095</b>
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4500

5500

10000

2000

8000

2444

5556

**Additional  
45%**

10000

8250

1750

3750

10000

1800

8200



1219

6981

(1225)

Additional  
45%

150,000

38,892

111,108

150,000

11,130

138,870

42,433 \*

96,437

35,775

