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.

Corporation tax rates are remaining at 19%. The reduction to 17% has been cancelled.

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 and/or a Stamp Duty Land Tax liability.

Below is a table indicating the tax implications of owning properties in a company compared with individual names for 2016/17 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.

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. There are anti avoidance provisions to ensure that capital distributions are restricted if a new company is set up after an old company has been liquidated.

So, if you require the income personally, then the amber lines show that higher rate taxpayers 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 EFFECT OF THE £2000 (from 2008/19) DIVIDEND 0% BAND ALSO DISTORTS THE FIGURES SO YOU MUST LOOK AT EACH CASE ON AN INDIVIDUAL BASIS.

Companies can only claim indexation allowance up to 31st December 2017. This does make the comparisons a lot easier and as you can see the tax payable on the disposal of a property is now more in a corporate structure.

The examples are for individuals. Couples may have different income tax rates and they have two Capital Gains Tax exemptions (£12,300 each for 2020/21).

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 £500,000 and are held in a limited company are liable to the Annual Tax on Enveloped Dwellings charge which starts at £3,700 pa and increases to £236,250 pa for properties worth more than £20million.

INCOME 2016/17

Individual rate of income tax	No other Income	Basic 20%	Higher 40%	Additional 45%
Individual Interest paid £15,000 net surplus £10000 2016/17				
Net rental income after expenses	10000	10000	10000	10000
Income tax (Personal allowance £11,000) * Does not include loss of Personal Allowance above £100,000	0	2000	4000 *	4500
1 Net amount received by individual	10000	8000	6000	5500
Company				
Net rental income after expenses	10000	10000	10000	10000
Corporation tax	2000	2000	2000	2000
2 Distributable profits/retained by company	8000	8000	8000	8000

	No other Income	Basic 20%	Higher 40%	Additional 45%
Pay dividend to individual shareholder				
Higher/Additional rate tax on dividend	0	225	975 *	1143
* Does not include loss of Personal Allowance above £100,000				
Assumes £5000 dividend allowance available in full				
3 Net amount received by individual	8000	7775	7025	6857

INCOME 2020/21

Individual rate of income tax	No other Income	Basic 20%	Higher 40%	Additional 45%
Individual Interest paid £15,000 net surplus £10000 2020/21				
Net rental income after expenses	10000	10000	10000	10000
Income tax (Personal allowance £12,500)	0	2000	7000 *	8250
* Does not include loss of Personal Allowance above £100,000				
1 Net amount received by individual	10000	8000	3000	1750
Increase in tax payable from 2016/17 to 2020/21	**0**	**0**	**3000**	**3750**
Company				
Net rental income after expenses	10000	10000	10000	10000
Corporation tax	1900	1900	1900	1900
2 Distributable profits/retained by company	8100	8100	8100	8100
Pay dividend to individual shareholder				
Tax on dividend	0	458	1983 *	2324
* Does not include loss of Personal Allowance above £100,000				
Assumes £2000 dividend allowance available in full				
3 Net amount received by individual	8100	7643	6118	5776
Increase/(Decrease) in tax payable from 2016/17 to 2020/21	**(100)**	**133**	**908**	**1081**

The decrease is due to the reduction in the corporation tax rate.

CAPITAL GAINS

As an example, let's consider a property bought for £150,000 and sold ten years later for £300,000. 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%	Additional 45%
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	150,000
	Capital Gains Tax (37,500 / 30000 / 0 / 0 @ 18%)	34,806	35,556	38,556	38,556
4	Net amount received by individual	115,194	114,444	111,444	111,444
Company					
	Gain	150,000	150,000	150,000	150,000
	Corporation tax	28,500	28,500	28,500	28,500
5	Distributable profits/retained by company	121,500	121,500	121,500	121,500
	Either: Pay dividend to individual shareholder				
	Higher/Additional rate tax on dividend * Based on income of £0/£20,000/£60,000/>£150,000	29,963 *	40,304 *	42,900 *	45,530 *
6	Net amount received by individual	91,538	81,196	78,600	75,971
	Or: Wind up the company and distribute its assets *				
	Capital Gains Tax (assuming no other gains) (37,500 /30000 / 0 / 0 @ 18%) *There would also be liquidator fees to be paid	26,826	27,576	30,576	30,576
7	Net amount received by individual	94,674	93,924	90,924	90,924

DISCLAIMER