Tax for limited company landlords

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The Property Accountants

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Buying properties via a limited company opens up more flexibility and opportunities to save tax.

If there's one thing that stops would-be investors in their tracks and keeps new landlords awake at night – its tax. Over the last few years, investors have seen net profits erode as the tax surrounding property has been changed by each successive chancellor. The good news is if you're using a limited company, your finances can be more flexible and more tax-efficient than private landlords. If you're about to start or are already renting a property and you're unsure of your tax obligations this factsheet to bring you up to speed.

More and more people are investing in property through a limited company. This change started back in 2015 after a handful of significant tax changes were brought in for landlords. Most notably, the changes shifted the level of income tax relief obtainable for landlords, restricting finance costs such as mortgage interest to the basic rate of tax. This was planned over a phased four year period finishing in April 2020. Up until this announcement, landlords could deduct their mortgage interest (plus any other allowable costs) from their taxable profit. So many investors reaped the rewards of interest-only mortgages.

Why the rush to incorporate?

These new measures only apply to private individuals with buy-to-let property meaning investors are increasingly turning to limited companies for the tax planning benefits they offer. Company landlords now own more than a quarter of rental homes in London.

As a limited company, your mortgage interest is viewed as a business expense which can be deducted from your total amount of taxable profit, reducing the corporation tax you'll pay. Plus, you're able to take advantage of allowable expenses (such as advertising, repairs and mileage) to reduce your taxes further. You also have the flexibility to distribute your profits in a tax-efficient manner - be it salary, dividends or paying into a pension.

Limited company taxes in a nutshell

Landlords who hold their property through a limited company are taxed differently to personal property owners. Here's a quick breakdown of the taxes you'll likely be paying.

Limited company tax can appear to be more complicated than PAYE or self-assessment. With Provestor, our award-winning accounting software calculates taxes in real-time, meaning you'll have an insightful and real-time view of your taxes, making running a limited company effortless.

Corporation tax

Instead of paying income tax like most private landlords, you'll instead pay corporation tax. Corporation tax is payable annually and based on the profit that your company makes. Your profit is your company's income minus its expenditure. Corporation tax currently sits at 19% and is set to fall to 17% in 2020. A big difference compared to the potential 45% income tax on net

rental income for personally held property. Corporation tax is payable 9 months and 1 day after your accounting year end.

Tax on dividends

Typically extracting profit out of your company is done by paying shareholders dividends. The first £2,000 of dividends they receive each year are tax-free, but after that, the individual (not the company) will pay tax on dividend income at 7.5% (£12,501-£50,000), 32.5% (£50,001-£150,000) or 38.1% (Over £150,000) (based on your personal tax rate for the 2019/20 tax year).

Tax on gains

Should your company sell a property or any other asset, which has increased in value, you will need to pay tax on the profit you've made. (This is similar to capital gains tax for individuals). Companies don't have access to the capital gains allowance, therefore you'll pay tax on the entire gain. However, this is charged at the rate of corporation tax which will be 17% by 2021, whereas individual landlords could be subject to a 28% tax rate.

PAYE

It's possible to pay yourself and others a salary from your limited company, and the earnings will be taxed like any other employment. You'll need to register as an employer with HMRC and collect and pay income tax, national insurance and employer's national insurance every quarter to HMRC. This is a useful option to pay a family member for admin support or to manage your properties.

VAT

Income from residential property is usually exempt from VAT.

Drawing an income from your property company

If you're looking to draw profit personally from your limited company, you can minimise your overall tax liabilities by paying yourself using a blend of salary and dividends. Your salary is classed as a business expense, reducing your total company profit and therefore your corporation tax bill. Many directors set a small salary for themselves, often around the personal allowance for the tax year. This helps minimise your personal tax liabilities - your national insurance contributions and income tax.

Any further income you want to take can be paid through dividends. The tax that dividends attract is less than the potential national insurance contributions and income tax that an equivalent salary would attract. You can choose to pay dividends throughout the year, assuming you have enough profit to distribute. It's not uncommon for a spouse to have shares and receive dividends. Pension payments are also tax deductible.

Typical expenses that can reduce your tax bills

One of the main tax benefits available to you is the ability to claim business expenses. A business expense is a payment made by your company for physical items, or services, that are essential for running your business and earning profits. Expenses can be offset against company profits, reducing the amount of corporation tax you'll pay. So, it's well worth recording and claiming all legitimate expenses.

Certain types of expenses are known as 'capital expenses' and these cannot be deducted from your profits. That means you can't deduct the cost of building an extension or renovating a home that's in a run-down state. Instead, should you decide to sell the property, you can claim these costs then and reduce the tax due on your gain.

Expenses need to be incurred wholly and exclusively in relation to the property company. Here are some typical claims for landlords:

Getting started costs

You will likely incur expenses before your first tenant moves in. If they would be tax-deductible after you started renting (e.g. repairs left by the previous owner) you can claim them.

Necessary repairs and maintenance

As well as claiming for day to day maintenance, if you rent out a furnished property, you can claim the actual cost of replacing domestic items (such as beds, carpets and fridges). Bear in mind that you can only claim for a replacement, not for when you originally kit out the property (these are capital expenses), and you can only claim for a like-for-like replacement.

Utilities and council tax

Should your tenants move out, leaving your property empty for a time, you'll need to pay any council tax or utility bills that they would normally pay. Fortunately, you can claim these costs against your annual rental income. If you offer council tax or utilities as part of your rental agreement, you can claim these back too.

Professional and service fees

Your agency fees and accountancy fees are all tax-deductible and can be claimed, as is the cost of any property investment courses you attended. Be aware that your original solicitor, survey and estate agency fees are not deductible because if a fee is attached to the original purchase of a property, these are capital expenses.

Insurance

Your specialist landlord insurance, rent guarantee and contents cover can all be claimed as expenses.

Interest payments

As we've already covered, when it comes to mortgage interest payments, landlords using a limited company can claim this fully as part of the company's expenses

Certification

The cost of your gas safety certificates and similar requirements can be claimed.

Advertising and marketing

Advertising for new tenants can be claimed

Travel

If you visit a tenant, agent or view a potential property to invest in, you can claim the cost of travel in your own personal vehicle, which is worth up to 45p per mile, tax-free.

Provestor tip: Don't overlook what appear to be small expense claims – they quickly add up to reduce your tax bill. We've designed Provestor to make it easy to claim these expenses – you can use our mobile app to snap receipts and log mileage on the go, minimising the risk of missing them. Plus, if you have any questions about what you can and can't claim, our accountants are a phone call or email away.

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Our factsheets do not offer investment, tax or financial advice and nothing in them should be construed as advice. Our factsheets provide information and education for investors who can make their decisions without advice. If you are unsure of any investment decision you should seek a professional financial advisor.

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