

You're in good company with Aldermore.

As a buy to let specialist, Aldermore helps UK landlords every year purchase properties through limited companies.

Aldermore

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May 2021

The changing tax landscape

One of the big drivers for the recent growth in limited company buy to lets has been tax changes*. These have impacted landlords who own properties in their own name and pay higher rate tax.

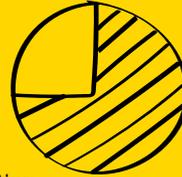
Since 2017, the government has been gradually limiting the amount of tax relief landlords can claim on residential property finance costs. Under the new rules, mortgage interest tax relief has shrunk to zero in 2021 and been replaced by a 20% tax credit on all rental income. With potentially higher tax bills, more and more landlords are considering the limited company option for new investments and remortgages.

Percentage of finance costs that can be deducted

The new rules for direct ownership are being phased in over a number of years:

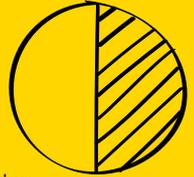
2017/18
75%

(basic rate reduction on the remaining 25%)



2018/19
50%

(basic rate reduction on the remaining 50%)



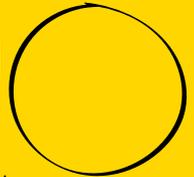
2019/20
20%

(basic rate reduction on the remaining 75%)



2020/21
0%

(basic rate reduction on all finance costs)



Individual or Limited Company route?

**3%
stamp duty***

The extra 3% stamp duty that applies to private individuals buying second properties applies to all properties purchased through a limited company.

But did you know that your client may qualify for multiple dwelling relief? Check the HMRC website for details.

*in Scotland this is charged at 4%

A limited company may have income tax advantages but it's important that your client considers all of the implications before jumping in.

This means getting expert tax advice to work out whether or not setting up a limited company will help them to save money, now and in the future.

Existing buy to let properties can be transferred to a limited company – but it can be a long and expensive process, and may not be worthwhile. It would technically be a sale and purchase at the market value, which would require a new mortgage application. The process is likely to trigger both capital gains tax and stamp duty land tax (SDLT), and may wipe out any future tax savings, depending on the circumstances.

So your client should only do this on the advice of a tax adviser who has looked at their overall financial situation and understands their goals and exit strategy.

PROs

 **Offsetting 100% mortgage interest**
Private landlords have had their tax relief allowances cut significantly in recent years. These changes don't affect limited companies.

 **£2,000 tax-free dividend relief**
The Dividend Tax Credit means company shareholders can potentially take £2,000 per year in dividends tax-free.

 **Profits can be reinvested**
It's possible to grow a buy to let portfolio more quickly through a limited company. This is because there's no income tax on profits retained within the company, so there's more cash to reinvest. Corporation tax is payable on trading profits, but this is lower than higher rate income tax.

 **Legal separation**
The company and its finances are legally separate to the people who run it – this limits the level of personal liability an individual can face.

CONs

 **No Capital Gains Tax allowance**
Unlike a private individual, companies don't qualify for capital gains tax relief on the proceeds of a property sale.

 **Limited company running costs**
Operating a limited company comes with fees for things like preparing the annual accounts, Companies House filings and more thorough accounting.

Two options for a limited company buy to let

A limited company buy to let can be purchased in either a Special Purpose Vehicle (SPV) or an existing trading company.

What is an SPV?

Special Purpose Vehicles are set up for one specific purpose or transaction, usually to isolate financial risk. In the mortgage world, a Special Purpose Vehicle is a company which is set up just to hold property and do nothing else. However, an SPV can become a trading company once the initial purpose has run its course or they enter into other trading, for example turnover/income from other purposes such as third party management, contracting and development.

What is a Trading Company?

Within mortgage lending, a **trading company** is one that has a primary activity other than owning property. This is a company which trades in business sectors other than property ownership/management or where an SPV has moved on from its initial reason of set up or single trade.

Identifying a trading company is usually fairly straightforward. This can be done a number of ways:

- By identifying multiple SIC codes on Companies House.
- Via the age of the company, for example an SPV initially set up to complete a portfolio acquisition and then further activity conducted over a prolonged period of time.
- The filed accounts, under the Profit & Loss sections, where income is derived from multiple sources.

Please note: if the SPV acquires more assets than property, this then becomes a trading company.

We lend to both Special Purpose Vehicles and Trading Companies

Buy to let lenders offering mortgages to limited companies mostly prefer SPVs because they are easier and quicker to understand, underwrite, and are perceived as being lower risk.

We will lend to trading companies as well as SPVs, so your client's company doesn't have to be totally focused on property to qualify.

Setting up a limited company

Step 1

Choose a company name

Start with a company name check to secure your preferred company name.

Step 5

Set up a business bank account

Step 2

Register your company at Companies House

Any shareholder with a holding greater than 25% is a Person with Significant Control (PSC). Each PSC's name, month and year of birth, nationality and service address will appear on the public register.

Step 4

Articles of association

These set out how the company is run, governed and owned. All members and company officers (directors and secretaries) are required to comply with the provisions of the articles at all times, but it is possible to make changes after incorporation if the needs of the business or its members change.

For more information on what these articles should cover, [follow this link](#).

What to consider?

- Number of directors
- Share holding % of people within
- Who does/doesn't have a controlling interest

Step 3

Choose the relevant SIC code for your company

- 68201 Renting & operating of housing association real estate
- 68209 Other letting & operating of own or leased real estate
- 68320 Management of real estate on a fee or contract basis
- 68100 Buying & sell own real estate

Tell me more

How does Aldermore underwrite limited company mortgages?

We underwrite in the same way as an individual's application with the additional searching and assessment of the company as the primary borrower. We also insist that our applicant/broker meets the minimum submission guidelines before the application is assessed by an underwriter.

For limited company mortgages we do require additional security. This generally includes a personal guarantee from the named individual(s) on the application covering 100% of the lending, and, in certain circumstances, a fixed and floating charge in the company.

Is it a problem if my client's company is not a Special Purpose Vehicle?

No, Aldermore also lends to trading companies.

Is there a minimum time a company must have been established to apply?

No, we lend to newly incorporated companies.

Are guarantees needed from directors?

Yes, all directors and shareholders with 25% or more shares, must provide personal guarantees which make them liable for the limited company's mortgage.

What else is needed for a limited company mortgage?

Once we get to post offer stage, this is what we'll need:

- A Deed of Guarantee must be provided by the applicant
- The guarantor must receive independent legal advice from someone not handling the conveyancing
- Charges must be registered at Companies House



Did you know we have a fees assisted remortgage? For more information, visit our website or speak to your local BDM to discuss.

intermediaries.aldermore.co.uk 0333 321 1000

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