



*Welcome to our
monthly newsletter
for property
landlords.*

Steven Sim – Associate

Record number of landlords intend to buy via a limited company

74% of the landlords who intend to buy property in the next year said that they would do so using a limited company structure. This record increase is shown in data for the recent [Paragon Bank survey](#) of 1,000 landlords. Conversely, those who plan to buy in an individual name have fallen from 41% recorded in the final quarter of 2021 to 17% in the second quarter of this year.

One possible reason for this shift in behaviour is the tax advantages of owning property via a limited company.



The decision to buy property via a limited company structure isn't for everyone and it should be determined on a case-by-case basis. As a general guide, the pros and cons of buying property via a limited company are as follows:

Advantages

Tax deductibility of mortgage interest – in 2015, measures were introduced that restricted the tax relief for mortgage interest on dwellings to 20% for individuals. Higher and additional rate taxpayers are unable to get relief at 40% or 45% for mortgage interest in respect of residential properties. This restriction does not apply to limited companies.

Corporation tax rate – profits from properties held in a limited company are subject to corporation tax, which is lower than the higher and additional rates of income tax. Whilst it is true that shareholders will be subject to income tax when dividends are taken out of the company, there are still opportunities for tax planning.

Succession planning – On a person's death, it is much simpler to pass property on to others if it is held in a limited company. There are also opportunities to reduce inheritance tax, stamp duty and capital gains tax.

Disadvantages

Mortgage rates – whilst lenders typically require lower interest coverage ratios for companies than for individuals, most charge higher interest rates and fees to limited companies than they do to individuals.

Legal and administrative

responsibilities - It's true that running a limited company involves more red tape – there are accounts and tax returns to file and the potential for penalties if deadlines are missed. In addition, the company may need to comply with the ATED (Annual Tax on Enveloped Dwellings) regime. Of course, these things can be dealt with by an accountant, but the associated costs must be factored in.

Be aware of tax avoidance schemes – there are schemes being marketed by accountants and lawyers that promise tax savings when individually-held properties are transferred into a limited company, but there are concerns that the schemes will result in mortgage default for the owner and minimal, if any, tax savings.

If you are considering keeping your property portfolio within a limited company structure, please talk to us. head.



Scotland: Rent controls may be increasing rents

In September 2022, the Scottish government froze rents and introduced an eviction ban, then capped in-tenancy rate increases at 3% until 31 March 2024. This 'temporary' legislation announced in September 2022 is set to be continued and expanded in proposals due to be put before Holyrood in the current legislative year.

D.J.ALEXANDER
Sales & Lettings

In his [article for the Scotsman](#), David Alexander, of DJ Alexander Sales & Lettings argues that due to rents increasing by 5.7% in the year to July 2023, the rent controls are not working, the situation is actually worsening for tenants and the freeze should not be extended.