



A guide to...

Limited Company Buy-to-Let

From April 2017, HM Treasury started phasing in changes which will eventually see landlords pay tax on the entire rental income they generate from their properties, meaning they will be unable to deduct the cost of mortgage interest. Instead, they will benefit from a tax credit equal to 20pc of the interest cost. It will mean higher-rate taxpayers will pay considerably more tax - and in some cases, even pay tax where they make no profit.

How to set up a Limited Company

This can be done online - to ensure you get all the right paperwork, select the appropriate SIC (Standard Industry Classification) code which relates to the letting property. Alternatively, an accountant can do it for a small charge.

Things to consider when setting up a Limited Company

To set up a Private Limited Company, you need to register with Companies House. This is known as 'incorporation'.

You'll need:

- A suitable company name
- An address for the company
- At least one director
- Details of the company's shares - you need at least one shareholder
- To check what your SIC code is - this identifies what your company does

You'll also need:

- Shareholders to agree to create the company and the written rules (known as 'memorandum and articles of association')
- Details of people with significant control over your company, for example, anyone with more than 25% shares or voting rights

Once you have these details, you can register your company.



Advantages and Disadvantages of Limited Company

Below outlines basic advantages and disadvantages. Please consult with your accountant to obtain the guidance suited for your situation.

+ Advantages

1. Mortgage interest tax relief

From April 2017 to 2020, the amount of Buy-to-Let tax relief individual landlords can claim back will be progressively cut from a maximum of 45%, to 20% for top rate taxpayers. However, this change does not affect Limited Companies, as they will still be able to fully offset mortgage interest. Please consult your tax adviser for further guidance.

2. No tax on dividends: ≤£2,000 for individuals

From 6 April 2017, the Dividend Tax Credit has been replaced by a new tax-free dividend allowance of £2,000. This means your client can potentially receive tax free dividend income from their investment properties.

3. No income tax when reinvesting profits to secure further properties

Your client could grow a Buy-to-Let portfolio more quickly within a Limited Company as there will be no income tax on the retained profit, thus allowing more cash to re-invest. Although corporation tax is payable on trading profits (20%; 2016/17; reducing to 17% in 2020), this is lower than the higher income tax rate (40% for £43,000 to £150,000; 2016/17).

4. Personal funds can be drawn back out of the company

Any advances your client makes to their Limited Company (e.g. the mortgage deposit), can be drawn back out of the company by way of Directors Loan.

- Disadvantages

1. No Capital Gains Tax (CGT) allowance when the company sells a property

Whereas individuals selling a property would have £11,100 CGT allowance (2016/17).

2. Additional running costs

Such costs include the preparation of accounts, company tax and corporation tax calculations for HMRC, filing at Companies House, legal fees, and annual auditing if applicable. A client's accountant may also charge higher fees when preparing accounts for Limited Companies.

3. Higher mortgage rates

Most lenders charge higher interest rates and fees for Limited Companies compared to Individual Buy-to-Let mortgages.

4. Reduced choice of lenders and mortgages

Many of the high-street lenders do not offer mortgages to Limited Companies, and often if they do, the product range is much smaller. However, at Fleet Mortgages, we offer just as many Limited Company products as Individual products.

Tip: You can run your business as a Private Limited Company. This means the company:

- Is legally separate from the people who run it
- Has separate finances from your personal ones
- Can keep any profits it makes after paying tax

Special Purpose Vehicle (SPV)

We define an SPV as a Limited Company that generates all their revenue from rental income from residential investment property. The SPV only holds residential Buy-to-Let properties as assets, and are not involved in other trading or business activity.

Fleet Mortgages will accept SPV Limited Companies for our Limited Company products. The SPV must have the relevant SIC codes (please see the 'SIC code' section) shown on their company registration, which is verified via a search on the Companies House website, to determine if these SIC codes have been applied.

How do I set up a SPV?

This can be done online, and follows the same process as setting up a Limited Company.

SIC code

A SIC code (Standard Industrial Classification) provides Companies House (and Fleet Mortgages) with a description of your company's nature of business.

The only SIC codes Fleet Mortgages will accept are:

- **68100** Buying and selling of own real estate
- **68209** Other letting and operating of own or leased real estate
- **68320** Management of real estate on a fee or contract basis
- **68201** Renting and operating of Housing Association real estate



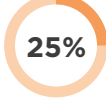

Is it a different process to buy a property through a Limited Company (SPV)?

Buying a Buy-to-Let property through a SPV company is a similar process to buying it as an individual, but there are significant additions. Please see the FAQ section for more detail.

Be aware that the 3pc extra stamp duty levied on people buying second properties will also apply to people buying through a company.

Limited Company and Taxation

Limited Companies are unaffected by the recent section 24 tax changes. Higher rate tax payers will see relief on finance costs reduce continuously until 2021:

-  **2017/18** Allowable deduction restricted to 75% of finance costs – basic rate deduction on the remaining 25%.
-  **2018/19** Allowable deduction restricted to 50% of finance costs – basic rate deduction on the remaining 50%.
-  **2019/20** Allowable deduction restricted to 25% of finance costs – basic rate deduction on the remaining 75%.
-  **2020/21** No deduction restricted for finance costs – basic rate deduction on finance costs incurred.

Why use Fleet Mortgages for Limited Company?

Fleet Mortgages has a straight-forward range of products, specifically designed for those buying through a Limited Company. With our breadth of experience in the Limited Company market, we provide competitive rates along with flexible criteria:

- Rental Calculation
- Shared Accommodation
- Multiple Assured Shorthold Tenancies (AST)
- Experienced and first time landlords
- Special Purpose Ltd Co (SPV) new and existing
- Sale from individual name into Limited Company
- Deposits via inter-company transfer or subsidiaries
- Up to 4 shareholders
- Capital raising, including for business purposes

FAQ's

Q. Should my client transfer from Individual name to Limited Company?

A. There is not a straight forward answer to this question. For each case, the response could differ depending on personal circumstances, future intentions, and the availability of mortgage finance to Limited Companies for the purchase of Buy-to-Let properties. Your client should also be mindful that a Limited Company is required to file the accounts and financial status of the entire property portfolio with Companies House on an annual basis.

Q. How do Fleet Mortgages underwrite a Limited Company product?

A. We would underwrite the case in the same way we would underwrite a standard product, however, we would carry out an additional search at Companies House. An independent legal advice certificate must also be completed and signed by both the solicitor and the guarantor for each application.

Q. Do you require additional paperwork to be completed for a Limited Company product?

A. There is no additional paperwork pre-offer. For post-offer requirements, see the FAQ 'What are the main differences between Standard conveyancing and Limited Company conveyancing'.

Q. What if my client's Limited Company is currently a trading company (not an SPV)?

A. If your client's Limited Company has traded in other industries in the past but would like to buy, sell, and let properties, we may be able to accept these cases. This would be subject to confirmation that all trading activities relating to other industries have ceased and the appropriate SIC codes have been applied.

Q. Will Fleet Mortgages accept transfers between individuals and Limited Companies?

A. Fleet Mortgages will consider applications where individuals are transferring properties to a SPV Limited Company they own. As each case is different, please call us to discuss a case further.

Q. How old must the Limited Company be to submit a case?

A. Fleet Mortgages will accept Limited Companies as soon as they have been fully incorporated.

Q. Do you require director's guarantees?

A. Yes, all directors/shareholders will be required to give personal guarantees, and therefore will be individually and collectively liable for the mortgage.

Q. Will Fleet Mortgages accept applications for HMOs through a Limited Company?

A. Yes, if your client would like a Buy-to-Let mortgage or re-mortgage for a HMO, they can choose any product from our HMO & Multi Unit Block range.

Q. Do you have a specific conveyancers panel for Limited Company cases?

A. Yes we do. Please see our website to view our current Limited Company Panel, or call us to find out more.

Q. What are the main differences between Standard conveyancing and Limited Company conveyancing?

- A. There are three main differences when it comes to Limited Company conveyancing:
1. A Deed of Guarantee is required
 2. The guarantor must receive Independent Legal Advice, by someone independent of the actual conveyancing
 3. Charges need to be registered at Companies House

Q. What security does Fleet Mortgages take?

A. We will take a fixed charge over the property. Our Mortgage Conditions also contain a restriction (known as a "negative pledge") upon the ability of the Company to take on further borrowings without our consent.

If the Company already has existing charges in favour of other lenders, their consent may be required to proceed with a charge in favour of Fleet Mortgages. Some further legal documentation may be required to facilitate this. If the existing lender doesn't agree to give those consents, we may not be able to proceed. The customer should check with their existing lender(s), or speak to their conveyancer.

The information presented in this guide is intended for authorised brokers and intermediaries only. No one else should use this information as a basis for any financial decisions. Please ensure you contact your financial and legal adviser before proceeding further.

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Useful sites

www.gov.uk