OCL ACCOUNTANCY

INFORMATION SHEET

OCL Accountancy
141 Englishcombe Lane Bath BA2 2EL
Telephone: 01225 445507
Email: info@oclaccountancy.com

Buy-to-let property: own it privately or through a company?

We have been asked this question by clients with their own companies looking to invest profits they generate in property and also by private clients looking to spread their investment portfolios and considering incorporation.

Generally the tax on rent received can be reduced if it is put through a company and where you are otherwise paying income tax at the higher rates – 40% or 50%

The downside is that if you are a higher rate tax payer and need to draw that income from the company, you'll suffer additional personal tax and the benefit is lost.

The position however becomes entirely different if you can retain the profits within a company and time your drawings for future years, when you can manage your income below the higher rate tax thresholds. This may be because of reduced business activities, lower income from other sources or because you have retired and are deferring income from pension funds.

It's important to remember that you can structure a company's ownership to allow spouses and family members to receive dividends, spreading the income and the tax burden.

There is an additional benefit. If during ownership the property has increased in value, then when it is sold the Capital Gain is taxable at 20% in the company, whereas personally you could be paying up to 28%

Whilst there are specific allowances that can affect the final result, these principles generally apply. Individual circumstances need to be considered properly and the above reviewed as part of your overall tax planning and property investment portfolio, together with your expectations regarding future rental and capital growth.

Example

A husband and wife invest £150,000 in a company which purchase a buy-to-let. They plan on this investment being part of their retirement fund when they retire in 15 years time. On average the property generates £6,000 net profit per year.

As higher rate tax payers, they would pay income tax at 40% on the profits of £2,400 per annum whereas a company would only be charged corporation tax at a rate of 20% so would pay £1,200 per year.

When the couple retire and are receiving a lower income they will be able to draw available funds from the company as dividends and pay no additional tax on income up to the higher rate tax band.

OCL Accountancy
141 Englishcombe Lane Bath BA2 2EL
Telephone: 01225 445507
Email: info@oclaccountancy.com

When they come to sell the property they will again receive benefits from the company owning the property.

When a company has a chargeable gain on the sale of an asset it is only charged capital gains tax at 20% and will get added benefits such as an indexation adjustment on the original cost to allow for inflation, therefore reducing the overall taxable gain.

Individuals pay capital gains tax at 28% after allowing for annual exemptions which is currently £10,600 per person.

So if the property was owned by the couple and not the company, in the example below they would be able to offset £21,200 against the chargeable gain of £146,990 leaving £125,790 chargeable to capital gains tax at a rate of 28%.

The company, on the other hand, would adjust the cost for the indexation allowance (estimated to be £69,900) to increase the cost to £219,900 therefore giving a chargeable gain of £77,090 which has corporation tax chargeable at 20%

Over the life of the investment, assuming no funds are being drawn throughout the years, with the property being owned through the company, the couple receive tax savings of £37,803.

The table below gives the worked example.

…….

About OCL Accountancy

We've been in business for more than 20 years and have clients who have been with us since the beginning. We can help in all areas of commercial and business advice, business planning and accountancy services, including accounts preparation (management and statutory), payroll, VAT, self assessment and all traditional tax services.

Please call 01225 445507 or email info@oclaccountancy.com to make an appointment – NO OBLIGATION OR CHARGE – to discuss your own situation and to see how we might help.

INFORMATION SHEET

OCL Accountancy
141 Englishcombe Lane Bath BA2 2EL
Telephone: 01225 445507
Email: info@oclaccountancy.com

		Owned by your company			**Owned privately**	
		£	£		£	£
Cost of property			150,000			150,000
Value estimated after 15 years at 5% growth per year			296,990			296,990
Net rental income per year		6,000	-		6,000	
Corporation Tax	20%	1,200			-	
Income tax		-		40%	2,400	
Net of tax income per year			4,800			3,600
Accumulated net income after 15 years			72,000			54,000
Extracting the income:						
Capital Gains Tax:						
Sale proceeds from sale of property		296,990			296,990	
Cost	150,000			150,000		
Indexation (adjustment for inflation) say 0.466	69,900			-		
Adjust cost for tax purposes		219,900			150,000	
Taxable gain			77,090			146,990
Annual exemptions			-			21,200
Taxable gain			77,090			125,790
Tax payable	20%		15,418	28%		35,221
Value of income and gain after tax take or available for property owners			**£ 353,572**			**£ 315,769**
Saving			**£ 37,803**			
Being corporation tax/income tax payable over 15 years			**£ 18,000**			**£ 36,000**
Tax on gain when property sold			**£ 15,418**			**£ 35,221**
			£ 33,418			**£ 71,221**
Tax savings after selling property			**£ 37,803**			
Getting the money out of company:						
Value of income and gains			353,572			
Less original investment			150,000			
Take as dividends (no further tax to pay for basic rate payers if managed correctly)			203,572			

This is a general guide only not intended to replace specific advice relating to your circumstances:
please call or email for a free appointment

August 2012