PROS AND CONS OF USING A PROPERTY COMPANY

As a financial adviser I am no different from anyone else when looking at my own investments. We (my wife and I) have bought several properties over the years and have had a generally good return and income stream. The change in the tax treatment of loan interest combined with rumblings about changes to capital gains tax (CGT) has lead me to consider a change in ownership structure for two new purchases. The following is a summary of my conclusions. ***It is not advice*** as everyone's circumstances are different.

1. ADMINISTRATION

There is a lot more involved in a ltd company. You need to get the limited company set up (I was charged £250 + VAT by our accountant) and you need to specify the areas the company will trade. When I did it I chose 68209 and 68100.

You need to set up a ltd company bank account. This was not as simple as setting up a second personal account and some banks do not offer business accounts (or charge a lot for the privilege).

From a practical perspective, owning property when one is much older is more expensive due to the need to employ property managers (we do this ourselves currently) but that is neutral company or personal.

On the other hand, if you are not up to doing returns and tax returns for a ltd company then your accountancy bills will be higher if you go the ltd company route. Our accountants quoted £1,000 p.a. which is expensive for the level of income received.

2. BORROWING

This is the reason I would create a limited company for all our properties if I had my time over again. When we started buying property we got tax relief on the borrowing, nowadays that only works in a limited company. If you want to borrow go limited.

Even if you are not gearing now, you may wish to use the values within your portfolio to gear (borrow) in future.

3. STAMP DUTY

No real difference I could spot between ltd and personal ownership. The 3% letting tax applies either way.

4. INCOME TAX

There is some flexibility with regard to a limited company. You can vary the shareholdings between spouses and give shares to children, thus adjusting the taxable income stream. This is possible via trusts if you own the property personally but I don't think that is as flexible. A limited company gives you the option to defer taking income, i.e. you have a good income tax year elsewhere so don't take dividends from your property company until you return to basic rates of tax.

5. CAPITAL GAINS TAX (CGT)

If you are going to buy and sell properties every few years then I think the limited company is the answer. You get indexation uplift then pay corporation tax on the sale proceeds (at say 19% instead of 18% / 28% personally).

On the other hand, if you want to realise the capital then you are worse off in a ltd company as you have to pay income tax on the proceeds.

Also bear in mind the expected change to CGT rules in future widely predicted to match income tax.

6. GOING INTO CARE

Let us say it is 20 years later and you want to pay nursing home fees. If you have the properties in a limited company you may be able to mortgage them rather than selling (therefore no CGT) and get tax relief on the mortgage interest. If you own them personally the only answer really is to sell, pay the CGT and use the proceeds.

Having said this, currently you will find it very difficult to take out a mortgage within a ltd property company if you are over the age of 65 and if you are forced sellers then you could end up paying more via the ltd company route.

7. INHERITANCE TAX PLANNING (IHT)

I feel the limited company would offer better opportunities to pass shares of the property holdings to children over a number of years. The ltd company also makes it easier to divide the value amongst several beneficiaries whilst retaining the underlying property assets.

8. ON DEATH

As you may know, CGT is cancelled out for the individual so they are not double taxed with Inheritance Tax (IHT). The individual owns the property shares and these would need to be revalued. The complication is, however, that the ltd company still has to pay corporation tax on the gains on the properties when they are eventually sold. I do not wish to overly concern myself with my demise right now, however, one would imagine the valuation of the ltd co would take account of the corporation tax liabilities when arriving at a net value for the shares.

9. SUMMARY

As usual there is no definitive answer! If you are setting up what you hope to be a property empire then the limited company is the obvious route. If you are happy to just hold (and you do not need borrowing) and take the income letting the gains rise until death then you are probably better off owning personally.