Residential investment property: hold personally, or hold in a company?

The tax and financial considerations (in short).

www.maco.co.uk
**Property held in company**
- Taxed on profits arising at the main corporation tax rate.
- Losses can be relieved against profits.
- Full interest rate relief available at the main rate of corporate tax.
- Cost of finance may be higher, and fewer products available.

**Property held personally**
- Taxed on profits arising at the marginal rate.
- Rent-a-room relief available (increased to £7,500).
- Relief available for the actual costs of replacing furniture and furnishings.
- Restriction on higher rate relief on finance costs. Phased in from 2017/18.
- Scottish tax payers will be subject to Scottish Rate of Income Tax (SRIT) on property income from 2017/18.
- New £1,000 tax free allowance for property income.
- Losses can be relieved against profits.

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**Incorporation**

**Property held personally**
- Capital gains tax charge, unless Holdover Relief or Incorporation Relief available.
- Subject to LBTT / SDLT charge.
- Can existing finance be transferred into company?

**Property held in company**
- Income tax charge to extent profits extracted from company.
- Salary or bonus subject to PAYE and NIC.
- Dividends taxed at 7.5%, 32.5% and 38.1%.
- Dividend allowance applies to first £2,000 of dividend income.
- Liquidation or winding up company may attract capital treatment.
- Dividend income not subject to SRIT.

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**Succession**

**Property held personally**
- Inheritance tax liability on market value of property.
- Beneficiaries receive property at market value, with no capital gains tax.

**Property held in company**
- Inheritance tax liability on market value of shareholding.
- Beneficiaries receive shares at market value, with no capital gains tax.
- No uplift of property value within company.

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**Ownership**

**Property held personally**
- Significant legal costs and implications to change title.
- Land & Buildings Transaction (LBTT) charge on acquisition.
- LBTT charged on market value if acquired by gift from connected person.
- Additional Dwelling Supplement (ADS) of 3% chargeable on additional residential properties.
- Stamp Duty Land Tax (SDLT) applies to property purchases in England & Wales.

**Property held in company**
- Residential properties held in a company subject to ATED.
- Banded tax charges on values over £500,000.

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**Extraction of Funds**

**Property held in company**
- Income tax charge to extent profits extracted from company.
- Salary or bonus subject to PAYE and NIC.
- Dividends taxed at 7.5%, 32.5% and 38.1%.
- Dividend allowance applies to first £2,000 of dividend income.
- Liquidation or winding up company may attract capital treatment.
- Dividend income not subject to SRIT.

**Property held personally**
- No charge to ATED.

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**Let's Compare:**

**Hold Personally Or Hold In A Company?**

The tax and financial considerations following the introduction of the restriction of higher rate relief on finance costs.

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**Let's Compare:**

**Extraction of Funds**

**Property held in company**
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**Property held personally**
- No charge to ATED.

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**Annual Tax on Enveloped Dwellings (ATED)**

**Property held personally**
- No charge to ATED.

**Property held in company**
- Residential properties held in a company subject to ATED.
- Banded tax charges on values over £500,000.

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**Let's Compare:**

**Hold Personally Or Hold In A Company?**

The tax and financial considerations following the introduction of the restriction of higher rate relief on finance costs.
Whether to hold property personally or in a company?

We are often asked this question, however as you will see from the inside pages there is no simple answer.

There are number of factors and options to consider, each having benefits and potential drawbacks depending on your circumstances.

Recent legislative changes, including the restriction of higher rate relief on finance costs, have only increased the complexity. It is an area that requires specialist advice as there is certainly no “one solution fits all”.

The decision as to which option and which business structure is best should be made with reference to both tax and commercial issues.

A lot will depend on the strategy you have for your property portfolio.

How can we help?

We’ll discuss your property strategy with you and we’ll make you aware (in more detail) of the commercial and tax consequences of your current strategy.

We’ll also give you our thoughts on other strategies you should consider.

We would recommend you consider the value of your whole portfolio, assess current and potential future returns, and the tax impacts, of your current strategy and the alternatives.

Get in touch with us to arrange an appointment

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