

PROPERTY INCORPORATION



WHAT IS PROPERTY PARTNERSHIP INCORPORATION?

Property partnership incorporation is simply the process of transferring interest in a property from a single name or partnership into a limited company.

For a current landlord the benefits to property partnership incorporation can be significant and by structuring these correctly it could result in significant tax savings.



WHY NOW?

Prior to 6 April 2017 a Higher Rate (40%) or Additional Rate (45%) tax paying landlord would have received tax relief on buy-to-let mortgage interest payments.

However, since 6 April 2017 this has gradually been withdrawn. From 6 April 2020 a buy-to-let landlord will not be able to claim any mortgage interest as a deductible expense when calculating their profits subject to Income Tax.

As a result, a buy-to-let landlord will instead be able to claim a 20% tax deduction calculated broadly on their mortgage interest payments.

In most instances this will create an increased Income Tax burden on the landlord.

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WHAT DOES THIS MEAN?

That's an additional £12,857 that becomes payable!

In short, it means that if you have a total rental income of £130,000 in 2016 you would have a tax liability of £21,643

In 2020, with the inability to deduct mortgage interest, the tax liability becomes £34,500

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WHO WOULD THIS APPLY TO?

If you are a higher or additional rate taxpayer.

If you are a married couple or have an existing partnership.

If you own in excess of 4 or more properties/units.

If you spend a significant amount of time managing the portfolio.

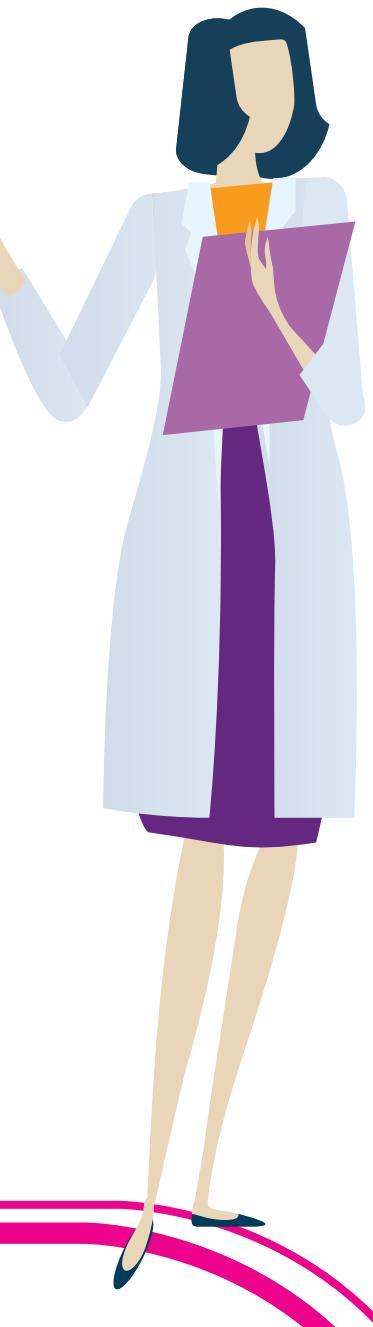
If your portfolio consists of mainly residential properties.

If you have mortgage debt.



WHAT ARE THE BENEFITS TO PROPERTY PARTNERSHIP INCORPORATION?

The benefits of transferring from a buy to let portfolio to a limited company include.



- Mortgage interest relief available to a company.
- No Capital Gains Tax (CGT) payable on the transfer
- No Stamp Duty Land Tax payable on the transfer - in most circumstances, where the portfolio is held in a partnership, including a defacto partnership.
- A company is taxed on profits at Corporate Tax rates.
- Profits can be taken in the form of salaries or dividends and split more favourably between spouses.
- Personal protection afforded by a corporate structure such as Limited Liability.

In most cases, a corporate structure is a better platform to start planning for business continuity and inheritance tax protection.

CASE STUDY

Our client had 15 buy-to-let properties with an average property value of approximately £261,200 and annual income of £100,000. After a full review of her property portfolio and found that the best move would be to incorporate, with key savings highlights in the points below:

1. No Stamp Duty Land Tax would be payable on incorporation saving approximately £130,000.
2. Capital Gains Tax roll over relief was available saving approximately £355,000.
3. The properties will be rebased for CGT purposes on transfer to the company, so if the company ever sold the properties in future a substantial amount of CGT could be saved; and
4. She can claim full deduction of mortgage interest against the company profits, which would then be taxed at 19%.

Therefore, our client was able to save £485,000 by incorporating her property portfolio.

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WHAT SERVICES ARE OFFERED?

Property partnership incorporation isn't for everyone, but for those it does work for the savings can be significant.

We will assess your portfolio and understand your individual circumstances, we will provide an initial assessment and provide a formal recommendation for the work required to achieve maximum savings.



WHAT ELSE CAN WE OFFER?



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STAMP DUTY LAND TAX

Stamp Duty Land Tax (SDLT) is complex self-assessment tax, currently, 1 in 4 transactions are calculated incorrectly, we assist in reviewing both upcoming and historical property transactions to ensure the correct SDLT consideration is applied.



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RESEARCH AND DEVELOPMENT RELIEF

Research and Development (R&D) Relief is a UK government scheme set up to reward businesses that invest in innovation. 20% of eligible companies currently claim this relief, we work with companies to identify R&D activity and submit successful claims with a 100% success rate.

MULTIPLE SOLUTIONS UNDER ONE ROOF

Innovation 4 Business are proud to be part of the Finance 4 Business group. This enables us to offer vertically integrated solutions across multiple specialist areas.



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