

MCPHERSONS PROPERTY TAX E-NEWS – October 2023

Welcome to our monthly newsletter for property landlords. We hope you find this informative and please contact us to discuss any

Record number of landlords intend to buy via a limited company

74% of the landlords who intend to buy property in the next year said that they would do so using a limited company structure. This record increase is shown in data for the recent Paragon Bank survey of 1,000 landlords.

Conversely, those who plan to buy in an individual name have fallen from 41% recorded in the final quarter of 2021 to 17% in the second quarter of this year.

One possible reason for this shift in behaviour is the tax advantages of owning property via a limited company.

The decision to buy property via a limited company structure isn't for everyone and it should be determined on a case-by-case basis. As a general guide, the pros and cons of buying property via a limited company are as follows:

Advantages

Tax deductibility of mortgage interest – in 2015, measures were introduced that restricted the tax relief for mortgage interest on dwellings to 20% for individuals. Higher and additional rate taxpayers are unable to get relief at 40% or 45% for mortgage interest in

respect of residential properties. This restriction does not apply to limited companies.

Corporation tax rate – profits from properties held in a limited company are subject to corporation tax, which is lower than the higher and additional rates of income tax. Whilst it is true that shareholders will be subject to income tax when dividends are taken out of the company, there are still opportunities for tax planning.

Succession planning – On a person's death, it is much simpler to pass property on to others if it is held in a limited company. There are also opportunities to reduce inheritance tax, stamp duty and capital gains tax.



Disadvantages

Mortgage rates – whilst lenders typically require lower interest coverage ratios for companies than for individuals, most charge higher interest rates and fees to limited companies than they do to individuals.

Legal and administrative responsibilities - It's true that running a limited company involves more red tape – there are accounts and tax returns to file

and the potential for penalties if deadlines are missed. In addition, the company may need to comply with the ATED (Annual Tax on Enveloped Dwellings) regime. Of course, these things can be dealt with by an accountant, but the associated costs must be factored in.

Be aware of tax avoidance schemes – there are schemes being marketed by accountants and lawyers that promise tax savings when individually-held properties are transferred into a limited company, but there are concerns that the schemes will result in mortgage default for the owner and minimal, if any, tax savings.

If you are considering keeping your property portfolio within a limited company structure, please talk to us.

Rocketing rents prediction

A build-up of long-term supply issues combined with soaring landlord costs is putting upward pressure on rents, say Hamptons Estate Agents in their most recent Market Insights Forecast. They predict that these pressures will not ease in the near future and that rents will continue to rise.



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The research suggests that rents will rise at the alarming rate of 25% over the next four years; more than four times the rate of house price growth. It is predicted that the private rental market will be one of the most contentious housing issues in the next general election.

On a brighter note, the Hampton's report argues that we are not experiencing the property price market crash that doom-mongers predicted; we are in the midst of a "U-shaped slowdown" rather than a "V-shaped crash" like we saw in 2008.

Scotland: Rent controls may be increasing rents

In September 2022, the Scottish government froze rents and introduced an eviction ban, then capped in-tenancy rate increases at 3% until 31 March 2024. This 'temporary' legislation announced in September 2022 is set to be continued and expanded in proposals due to be put before Holyrood in the current legislative year.

In his article for the Scotsman, David Alexander, of DJ Alexander Sales & Lettings argues that due to rents increasing by 5.7% in the year to July 2023, the rent controls are not working, the situation is actually worsening for tenants and the freeze should not be extended.

Wales: Gwynedd Council proposes planning permission requirement for second homes

In a move that has attracted criticism from tourism boards and residents, Gwynedd Council has voted to proceed with a so-called Article 4 Direction which requires people to get planning permission for second homes or short-term holiday lets in the county. This is to curb the "huge housing crisis" in the county, fuelled largely by a high concentration of second homes. The council predicts that it is inevitable that prices will decrease as a result of the measures, possibly by around 5%.

North Wales Tourism has accused the council of "anti-tourism" policies and local residents are angry that their homes may be devalued. The council believes, however, that the measures will be a means of securing lower cost houses within the housing market.



Dan Cruikshank is a Tax Associate at McPhersons. He started with the firm back in 2007 as a tax trainee. Not only has he completed thousands of tax returns, he also provides valuable tax-saving advice to McPhersons clients. He has a wealth of experience in Inheritance Tax, Capital Gains Tax and specialises in property tax and inheritance tax planning. The past few years has seen him gain additional qualifications and he is now a Chartered Tax Advisor.