Call: **01424 730000**
Email: info@mcphersons.co.uk
www.mcphersons.co.uk

Should HMO or buy-to-let landlords set up a limited company?

There are several considerations to take into account when deciding whether or not to set up a limited company for your HMO or buy-to-let business. Some key factors to consider are the level of personal liability you're willing to accept, the tax implications, compliance requirements and mortgage relief.

The benefits of setting up a limited company

If you're operating as an Unincorporated property investor, you'll be personally liable for any debts or losses incurred by the business. This means that your personal assets, such as your home, could be at risk if the business fails. A limited company offers limited liability protection, which means that you're only liable for the debts of the company up to the amount you have invested.

The introduction of Clause 24 is another motivator to set up a limited company. This restriction was implemented in 2017 to reduce the amount of mortgage interest that can be claimed as a cost against residential property letting. It was introduced gradually, and as of 2021, the interest costs are now disallowed and replaced with the Finance Cost Allowance. For higher rate taxpayers this has a major impact. However, this does not apply to limited companies. Companies will continue to claim 100% of interest.

If you do set up a company for the reason of Clause 24, it's important to recognise that it would be beneficial to set up a separate company for each property investment. This will simplify your taxes, allow you to sell shares at 0.5% Stamp Duty (instead of selling the property), and make Inheritance Tax Planning simpler. In addition, Capital Gains Tax will be 8% lower on selling shares and based on the net asset value of the company (allowing the offset of borrowing).

Another tax advantage of setting up a company is that you'll no longer have to pay income tax on your profits. However, you will have to pay corporation tax which is currently at 19% but is set to increase to 25% from 2023. Therefore, if you're in the 40% tax band, a company could significantly reduce your bill.

Single property companies are better if you want to shop around for borrowing as the lender can take a charge over the property and debenture over the company.

The drawbacks of setting up a limited company

Some drawbacks of setting up a limited company as an HMO or buy-to-let landlord include:

- **Limited mortgage deals:** There are not many mortgage providers that lend to companies, so your choice will be restricted.
- **Disclosure:** Companies have to publicly disclose details about their business, including the registered address, date of incorporation and current officers. This may deter some landlords.
- **Transferring properties into the company:** If you already own a property and wish to transfer it to a limited company, you need to go through the standard sale and purchase procedures. All standard taxes will be payable.

If you have one property, then it may be better for you to continue as an Unincorporated property investor. However, if you're near the tax threshold of £50,000 or plan to expand your portfolio, then it's worth considering setting up a limited company.

How to set up a company

HMRC offers a step-by-step guide to walk you through the process. You can register online or via post and you'll be registered for Corporation Tax simultaneously. Registering online costs £12 and you'll need to provide some basic information about yourself and the business.

We hope that you find this informative. Please contact us to discuss any matters further.