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Using a Property Company to Save Tax

By Carl Bayley BSc ACA

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TAX GUIDE - 'Using a Property Company to Save Tax'

Published by:
Taxcafe UK Limited
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Email address: team@taxcafe.co.uk

Fourteenth Edition, March 2018
ISBN 978-1-911020-24-0

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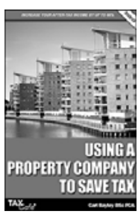

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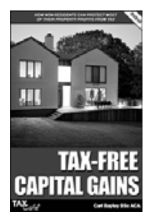

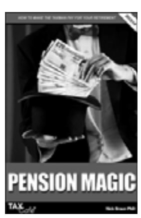

About the Author

Carl Bayley is the author of a series of 'Plain English' tax guides designed specifically for the layman and the non-specialist. Carl's particular speciality is his ability to take the weird, complex and inexplicable world of taxation and set it out in the kind of clear, straightforward language that taxpayers themselves can understand. As he often says himself, "my job is to translate 'tax' into English".

Carl enjoys his role as a tax author, as he explains: "Writing these guides gives me the opportunity to use the skills and knowledge learned over more than thirty years in the tax profession for the benefit of a wider audience. The most satisfying part of my success as an author is the chance to give the average person the same standard of advice as the 'big guys' at a price which everyone can afford."

Carl takes the same approach when speaking on taxation, a role he frequently undertakes with great enthusiasm, including his highly acclaimed annual 'Budget Breakfast' for the Institute of Chartered Accountants.

In addition to being a recognised author and speaker on the subject, Carl has often spoken on property taxation on radio and television, including the BBC's 'It's Your Money' programme and BBC Radio 2's Jeremy Vine Show.

Carl began his career as a Chartered Accountant in 1983 with one of the 'Big 4' accountancy firms. After qualifying as a double prize-winner, he immediately began specialising in taxation.

Having honed his skills with several major international firms, Carl began the new millennium by launching his own tax and accounting practice, Bayley Miller Limited, through which he provides advice on a wide variety of taxation issues; especially property taxation and tax planning for small and medium-sized businesses.

Carl is the Chairman of the Tax Faculty at the Institute of Chartered Accountants in England and Wales, a member of the Institute's governing Council, and a former President of ICAEW Scotland. He has co-organised the annual Practical Tax Conference for the last 16 years.

When he isn't working, Carl takes on the equally taxing challenges of hill walking and creative writing – his Munro tally is now 104 and he has just completed his first novel.

Carl lives in the Scottish Borders and has four children.

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Foreword

By the author

People in the UK have invested in property for centuries. Substantial increases in personal wealth and disposable income over the last few decades, together with problems in other areas of investment and in the pensions industry, have, however, combined to make this an important new area of personal financial planning.

Despite recent economic difficulties in the UK and elsewhere, I personally believe that the property investment sector as we know it today is here to stay. Naturally, the sector will have its ups and downs, as any other sector does, but the philosophy of property investment as a 'career move', or a 'pension plan', is now so well entrenched that it is impossible to imagine that it could ever disappear altogether.

In 2002, in response to the huge demand for advice on property taxation issues which we had been experiencing at Taxcafe.co.uk, we published the first edition of *How to Save Property Tax*, the sister publication to this guide. In the following years, the demand for property taxation advice continued to grow at a phenomenal pace and this is responsible for the fact that our first guide is now in its twenty-first edition and this guide is in its fourteenth.

But it isn't just the ***quantity*** of advice being demanded that we have seen increase, it is also the level or, if you like, the ***quality*** of advice being demanded that we have seen increase significantly.

We have also seen a huge broadening in the type of activities undertaken by the typical property 'investor', many of whom will now, at least partly, be classed as property developers, dealers or managers. This guide, along with its sister publication, has evolved in line with our readership and now caters for the whole range of property businesses which our readers undertake.

As I have already suggested above, a strong trend has emerged for people to enter the property investment business as a profession or as a means to save for retirement.

This 'new breed' of property investor is entering the market with a much higher degree of sophistication and is prepared to devote substantial time and resources to the business.

Almost every one of these 'professional investors' asks me the same question: "Should I use a company?" Very often, they are hoping for a nice, simple, single-word answer and, being the helpful chap that I am, I give them one: "Maybe!"

Being an accountant, you may think that my slightly evasive response is merely a ploy to enable me to earn more fees from consultancy work. However, you would be quite wrong, as "maybe" is the only answer I could possibly give. This question is not an easy one to answer. There are a huge number of factors to be taken into account, not all of which relate to taxation, and it is therefore impossible (not to mention inadvisable) to simply give a straightforward "yes" or "no" answer. (And, in any case, I have plenty of consultancy work already, thank you!)

The first aim of this guide, though, ***is*** to answer that question, not in a single word, but in the many thousands of words which, in reality, the answer to this highly complex question actually requires. So, to provide you with a truly thorough answer to this crucial question, we will begin, in Chapters 1 and 2, by looking at the basic tax (and non-tax) implications of using a company.

The UK tax regime for companies is quite different from that applying to individuals, or indeed to partnerships, trusts or other potential investment vehicles. The company tax regime has quite a few quirks, which can prove to be costly traps for the unwary. It is therefore extremely important that any property investor considering the company route understands what they are getting themselves into!

In Chapters 3 to 10, we will move on to a more detailed look at the taxation of UK property companies. Here we will discover that there are several different types of property company and that each gives rise to a different set of tax implications which need to be considered carefully by the prospective corporate property investor.

Chapter 11 then provides a summarised comparison of the tax position of companies and individuals.

Following that, in Chapter 12, we will take a detailed look at all the factors involved in making the decision whether to use a company and their implications for the property investor. This is illustrated throughout by several examples designed to highlight the key issues.

In Chapter 13 we will begin to apply what we have learned so far by focussing on one of the most important benefits of using a property company: interest relief.

As most readers will know, individual residential property investors are now subject to restrictions on the rate of relief available for their interest and finance costs. These restrictions are covered in detail in the Taxcafe.co.uk guides *'How to Save Property Tax'* and *'Landlord Interest'*, although we will also take a brief look at them in Chapter 13 of this guide.

Companies are not subject to these new restrictions: providing a major benefit to investors running a residential property letting business through a company. (A separate set of restrictions do apply to companies: but these only apply to annual interest costs in excess of £2m.)

Furthermore, on top of this, individual landlords can only set interest and finance costs against their rental income: often leading to rental losses or surplus unrelieved interest which can generally only be carried forward and cannot usually be set off against other income or even capital gains on the same property.

A further benefit for a property investor using a company is the ability to set interest on funds borrowed for a company's property investments against other income or capital gains within the company or even the investor's own salary or other income.

In Chapter 13 we will see the difference that this different treatment of interest costs can make to a property investor over many years as the economic cycle produces both short-term losses and long-term gains.

Reaching a Conclusion

In the end, only **you** can really decide whether a property company is appropriate for you - by undertaking a detailed examination of your own individual position and weighing up all of the factors involved.

My aim in this guide is to enable you to reach that unique individual conclusion and make a well-informed decision armed with a strong understanding of the many issues involved.

Whether you're one of those 'professional investors' whom I referred to earlier, or one of the many 'gifted amateurs' whom I also frequently meet; whether you see your property business as your pension plan or just a good way to supplement your income; whether you're developing, dealing, managing or just renting out your properties; whether you've always had a master plan or you stumbled into property investment by accident; in fact, whatever your circumstances may be, this guide will help you understand the questions you need to ask yourself before you can make a truly informed decision whether to use a property company or not.

And you may also find that “yes” or “no” are not the only answers to the property company question that you come up with. Many of my clients, with my guidance, decide that the answer for them is “partly” or “later”.

There is absolutely nothing to stop an investor from running two property businesses in parallel – one as an individual and one through a company. Many investors also find that the best route for them is to start with a small property business owned personally and then to start up a second property business in a company later on.

Operating Your Property Company

Once you’ve made the decision to operate some or all of your property business through a company, whether with the help of this guide or not, you will then want to run your company in the most beneficial way possible.

The second function of this guide is therefore to provide the tax-planning advice and the warnings of potential pitfalls that you will need to know in order to minimise your tax burden as a property company owner.

Hence, as well as providing the overall summary of the property company tax regime in the early chapters of this guide, many more potential planning opportunities and possible pitfalls are covered in Chapters 14 to 16.

Chapter 17 then introduces some more specialised property company structures before lastly, in Chapter 18, at the end of the guide, our detailed findings are neatly summarised, giving you a final opportunity to weigh the whole thing up.

Tips and Warnings

Sprinkled throughout this guide, you will also find many **‘Tax Tips’** and **‘Wealth Warnings’** designed to highlight key points where there are extra savings to be made or traps to catch the unwary! Watch out for both of these as you read the guide.

Scope of this Guide

This guide is aimed primarily at UK resident property investors considering or using a UK resident company to run their property business (although issues facing non-resident investors or non-resident companies are covered briefly in Section 16.6).

The guide covers investors who are resident anywhere in the UK and who are investing in property anywhere in the UK. Readers should be aware that there are current or proposed variations in the taxes applying within the three nations outside England which make up the rest of the UK. These variations are all covered within this guide as follows:

i) The rates of Income Tax applying to Scottish taxpayers – see Section 16.9
ii) Land and Buildings Transaction Tax on purchases of property in Scotland – see Section 8.7
iii) Land Transaction Tax on purchases of property in Wales after 31st March 2018 – see Section 8.8
iv) The future rate of Corporation Tax applying to companies operating in Northern Ireland – see Section 2.3

The implications of these variations for property investors who are considering using a property investment company are covered within the relevant sections listed above. In most cases, the variations make very little difference to the question of whether it is advantageous for the investor to use a company or not. Hence, in order to avoid a lot of additional, and largely unnecessary, complexity, throughout the rest of this guide I will ignore the variations listed above unless specifically stated to the contrary.

In particular, I will refer only to Stamp Duty Land Tax on purchases of property. Readers should be aware that slightly different rates of tax apply on purchases of property in Scotland, or in Wales after 31st March 2018, and the name of the tax will be different, but this will make very little difference.

The reader must also bear in mind the general nature of this guide. Individual circumstances vary and the tax implications of an individual's actions will vary with them. For this reason, it is always vital to get professional advice before undertaking any tax planning or other transactions that may have tax implications. The author and Taxcafe UK Ltd cannot accept any responsibility for any loss that may arise as a consequence of any action taken, or any decision to refrain from action taken, as a result of reading this guide.

Predicting the Future

In order to reinforce the issues discussed in this guide, I will demonstrate the tax implications of corporate property investment through the use of several worked examples.

In my examples, I have naturally had to make various assumptions about external factors beyond the control of the property investor, including:

- The growth of property values
- The future rate of inflation
- Interest rates
- The rates of return on property investment (i.e. market rental levels)
- Future changes to the UK tax system

I have made my assumptions as reasonable as possible, based on my experience of the property investment sector and the UK taxation regime.

However, if I can predict one thing with any certainty it is that the future will not be exactly as any of us may predict. Hence, whilst I believe that the conclusions I have been able to draw in this guide are validly based on sound principles, the reader must nevertheless bear in mind that those conclusions are, to some extent, dependent on uncertain predictions about the future.

In preparing the examples in this guide, I have assumed that the UK tax regime will remain unchanged in the future except to the extent of any announcements already made at the time of publication and some minor changes to personal tax bands, exemptions and allowances (as explained in Section 11.2).

The personal tax rates and allowances for 2018/19 are included in Appendix A. For later years, please remember that all of my assumptions are made simply for illustrative purposes and are only my 'best guess'; so some variation from my figures can be expected. The further we look into the future, the greater that variation is likely to be.

In reality, we are bound to see more significant changes to the UK tax system at some point in the future, especially following any change of Government. Whilst we have no idea when such changes will take place, they will almost certainly occur within the timescale that most long-term property investors are considering.

In Section 18.2, at the end of the guide, I have therefore attempted to analyse the potential impact of any further changes to small company taxation that we may see over the next few years.

Nevertheless, despite the ever-present possibility of changes to the tax regime, I remain firmly of the opinion that there will always still be a great many property investors for whom the use of a company vehicle to hold their investments will continue to be highly beneficial.

As with any other tax planning, my advice is this:

Hope for the best,
Plan for the worst,
Review your position constantly, and
Expect the unexpected!

About the Examples

In addition to the points made above regarding the future of the UK tax regime, please note that, unless specifically stated to the contrary, all persons described in the examples in this guide are:

i) UK resident and domiciled for tax purposes
ii) Not subject to the High Income Child Benefit Charge
iii) Not claiming the marriage allowance
iv) Not Scottish taxpayers (i.e. pay Income Tax at normal UK rates)

See Section 16.9 regarding the Income Tax rates applying to Scottish taxpayers and the impact this has on the issues discussed in this guide.

All persons described in the examples in this guide are entirely fictional characters created specifically for the purposes of this guide. Any similarities to actual persons, living or dead, or to fictional characters created by any other author, are entirely coincidental.

Likewise, the companies described in the examples in this guide are similarly fictional corporations created specifically for the purposes of this guide and any similarities to actual companies, past or present, are again entirely coincidental.

Married Couples & Registered Civil Partnerships

Throughout this guide, you will see me refer many times to 'married couples', spouses, or husbands and wives.

In each case, the tax treatment being outlined applies equally to:

- Married couples of opposite sexes,
- Married couples of the same sex, and
- Registered civil partners

Hence, any references to 'married couples' throughout this guide should be taken to also include registered civil partnerships; any reference to the taxpayer's 'spouse' will also include their civil partner where relevant; and any reference to 'husbands' or 'wives' will include spouses of the same gender and civil partners.

However, it remains important to remember that, unless specified to the contrary, the tax treatment being outlined applies to legally married couples and legally registered civil partners only. Unmarried couples are subject to entirely different rules.

Remember also that marriage, or civil partnership, is not always advantageous for tax purposes. It really is a case of 'for better or worse'!

Abbreviations

Generally, at Taxcafe, we don't like using abbreviations or jargon because we want to keep our guides as simple as possible. To save some space in this guide, however, we have allowed ourselves a few abbreviations. We think they are fairly obvious ones, so they should not cause any confusion. We will explain what each abbreviation means the first time we use it and they are also set out again in Appendix H for your ease of reference.

Large numbers, such as £1,000,000 or more, are also abbreviated by use of the letter 'm'. For example:

> £2,500,000 will be written as £2.5m

The Last Word

Finally, to close this foreword, may I just say that whatever type of property investor you are, and whatever decision you reach about the possible benefits of using a company, I would like to thank you for reading this guide and wish you every success with your investments.

Chapter 1

Why Use a Company?

1.1 INTRODUCTION

Many UK property investors are drawn towards the idea of holding their property investments through a limited company. Why is this?

Unlike most other types of business, it does not generally appear to be due to the protection afforded by a company's limited liability status.

No, this decision appears to be almost entirely tax-driven and is a direct result of the comparatively favourable Corporation Tax ('CT') regime.

In 2010, the Coalition (later Conservative) Chancellor, George Osborne, announced a series of reductions in CT rates. These were later improved upon with further reductions announced in subsequent Budgets. We will take a detailed look at Osborne's CT reductions in Section 2.5, but the main point to note is that the current rate is just 19%.

Whilst CT rates have fallen over the last few years, Governments of all persuasions have put in place a series of personal taxation increases for individuals, including:

- Unprecedented restrictions on interest relief for residential landlords
- Reducing the basic rate tax band for five years in succession from 2010/11 to 2015/16: thus pushing a great many more people into the higher rate Income Tax bracket (for English, Welsh and Northern Irish taxpayers, the higher rate tax threshold only finally clawed its way back above its 2009/10 level after eight years, in April 2017; for Scottish taxpayers, it still hasn't!)
- Introducing the High Income Child Benefit Charge to claw back Child Benefit claimed by households where any individual has income over £50,000
- Withdrawing personal allowances from individuals with income over £100,000
- Introducing the 'additional rate' on income over £150,000
- Increasing all of the main National Insurance ('NI') rates (which was set to get even worse before Philip Hammond was forced into an embarrassing U-turn in March 2017)

- Increasing the Capital Gains Tax ('CGT') rate to 28% for higher rate taxpayers (later reduced to 20%: but **not** for residential property!)

Hence, with CT rates falling and personal tax rates looking set to remain high for the foreseeable future, the apparent attraction of running any type of business through a company has been significantly increased.

For property investors, the relatively beneficial CT regime looks extremely tempting. With CT rates considerably lower than higher rate Income Tax at 40% or additional rate tax at 45%, many investors feel that using a company must surely be the easiest way to save tax on their investments.

Furthermore, the more beneficial interest relief regime enjoyed by investors using a property investment company (see Chapter 13) is often also an important factor.

With lower tax on profits and better relief for both interest and losses; using a property company does initially seem pretty attractive.

But is it really that simple? Clearly, the fact that we have published a whole guide dedicated to this question indicates that it is not!

Yes, at first glance, the CT rates do look very attractive compared with higher or additional rate Income Tax. However, as we shall see, basing the decision to use a company on this one factor alone would be extremely short-sighted.

As we proceed to examine this issue in greater depth, we will see that the CT benefits will not always be as great as they may, at first, appear to be. The advantage gained through the lower CT rate is reduced or sometimes even eliminated by the problems surrounding the extraction of profits from the company.

Furthermore, with the wide range of CGT reliefs available to individual property investors, there is sometimes a danger that the long-term position, taking capital growth and the eventual disposal of investment properties into account, may be significantly and detrimentally affected by the use of a company.

Nevertheless, despite these drawbacks, there are still some situations where using a company can prove advantageous to the long-term property investor acquiring a portfolio of properties over time. Where the property portfolio is effectively regarded as a 'pension plan', for example, there may be substantial long-term benefits to be derived from using a company as an investment vehicle.

Furthermore, for those involved in property development, dealing or management, the way that these businesses are treated for Income Tax and NI purposes means that a company can be even more attractive in these cases.

1.2 NON-TAX REASONS FOR USING A COMPANY

Before we go on to examine all of the taxation considerations behind the use of a company for property businesses, it is first worth having a brief look at some of the non-taxation factors involved.

There are many non-taxation issues involved in the decision whether to use a company or not. Some of these are covered briefly below, although this list is far from exhaustive.

Limited Liability Protection

Although this does not appear to be the major reason behind most property investors' decision to incorporate, it is still, nevertheless, a factor to be considered. A company is a separate legal entity and, as such, is responsible for its own debts and other liabilities.

The usefulness of this, however, is often limited. Banks will often insist on personal guarantees from the directors or shareholders before they will lend money to the company.

Furthermore, modern insolvency law passes a large part of the company's financial responsibilities to its directors, who may find themselves personally liable where the company has been used in an attempt to avoid the payment of liabilities arising in the normal course of its business.

Nevertheless, limited liability is useful when the business faces unexpected losses or legal liabilities. This can be particularly important when the economy takes a turn for the worse!

Note that limited liability status can also be obtained by using a Limited Liability Partnership ('LLP'). For property investors, however, LLPs suffer the major drawback that interest relief is not available for funds invested in an LLP engaged in property investment.

Status

A business that is run through a company is generally perceived as having greater status than a business owned by an individual. For some reason, most people think that 'John Smith Investments Limited' sounds a lot more reliable than plain 'John Smith'.

This perception is, of course, complete rubbish, as is evidenced by the many corporate collapses we have seen.

Nevertheless, the perception of companies as steady and reliable still remains and corporate property investors may find that they can use this to their advantage.

Flexibility of Ownership

Without the use of a company, it is difficult to involve many other people in the ownership of your property business. Joint ownership with your spouse or partner is easy enough to achieve, but later, as the business hopefully grows, you may wish to involve adult children or key employees.

It is far easier to spread small parcels of ownership of the business through the medium of company shares.

Separation of Ownership and Management

A company structure will also enable you to separate ownership and management. As your business grows and the years go by, you may eventually wish either to retire or to move on to other ventures. However, you may still have a highly profitable business that you do not yet wish to sell.

Using a company will enable you to retain ownership (as a shareholder) while passing management responsibility on to others (the directors). A company structure also enables this business succession process to take place at a more controlled and steady pace.

Tax Tip

Taking the succession planning idea a step further, a company is often a good vehicle for passing wealth on to your children (or other intended beneficiaries).

The problem with a property investment or letting business is that it does not qualify for business property relief for Inheritance Tax ('IHT') purposes. Hence, on the owner's death, the whole portfolio is exposed to IHT.

What a company can provide in this situation is a means to allow the owner to pass on small parcels of ownership over a number of years, thus making use of the CGT and IHT annual exemptions and avoiding both taxes.

A sophisticated share structure may also enable you to keep control of your company while passing on a significant proportion of the underlying value to your children.

Finance

Many investors wishing to hold properties through the medium of a company find it difficult to obtain the level of finance that they require. This problem seems to most affect those who are just starting their property business, or who only have one or two existing investment properties.

A 'Deed of Trust' arrangement can often be used to get around this problem. We will look at how this type of arrangement works in Section 13.6.

Conversely, for the larger portfolio, corporate status seems to become a positive factor in the eyes of many lenders, probably for the reasons explained under 'Status' above.

Additionally, where the investor is non-UK resident, but looking to invest in the UK property market, the UK's lending institutions have been known to favour the use of a UK-registered company, as this gives the investor a presence in the UK.

Legal Rights

If you run your business through a company, you personally will no longer own property. Instead, you will own company shares. Legally, these are an entirely different kind of asset, giving rise to different legal rights.

What kind of difference this will make to your affairs will depend on your personal circumstances, as well as in what part of the UK (or other country) you and your properties are located.

As I am not a lawyer, I will not attempt to advise property investors on these issues, but the advice I **will** give is that you should get legal advice on the implications of owning your properties through a company.

Company Law

If you use a UK-registered company, you will be subject to the requirements of UK company law. This, for example, may restrict your ability to utilise funds from your business for private purposes.

Audit and Other Statutory Requirements

Larger companies require a statutory annual audit of their accounts. Even the smallest companies must file annual accounts, an annual return and certain other documentation with Companies House.

We will take a closer look at these statutory requirements in Chapter 14.

Costs

Inevitably, the additional statutory requirements involved in running a company will lead to increases in accountancy and other professional costs. These additional costs must be weighed against the tax and other benefits that incorporation brings.

Time

Running a company will take up more of your time. There is more bureaucracy, more paperwork and more administration to think about. Whatever you do, there are only 24 hours in a day, so the time eaten up by bureaucracy means less time to concentrate on your investments.

Hence, you have to ask yourself if the financial savings that the company brings are sufficient to compensate for the time the company takes up.

It's a question of how you value your time. If the company is saving you a large amount of money then obviously it is worth investing your time. But, in borderline cases, this could actually be the factor that decides against the company. Naturally, if the company saves you enough money, it will be worth employing someone else to do all that tedious paperwork. Then you can save money and time!

1.3 OVERVIEW OF COMPANY TAX PROS AND CONS

We now turn to the tax implications of running a property business through a company. As a broad overview, in general terms, it is reasonable to say that:

A company often produces a better taxation result on <u>income</u>
BUT
Personal ownership can sometimes produce a better result on <u>capital</u> growth

To illustrate this further, let's take a look at some of the taxation pros and cons of investing through a limited company.

Using a Company: The Pros

- From 1st April 2017, almost all UK companies pay CT at just 19% on any level of annual profits

- From 1st April 2020, the CT rate will fall to just 17%

- Companies are not subject to the horrendous new restrictions on relief for interest and finance costs relating to residential lettings which apply to individuals and partnerships from 6th April 2017. (Some restrictions do apply to interest relief for companies: but only to amounts in excess of £2m per year)

- Existing companies may enjoy some indexation relief for capital gains purposes. This exempts the portion of any capital gain that arises purely due to inflation – but only up until December 2017. This is because indexation relief has now been frozen: it is no longer based on the increase in the retail prices index over the entire period the property is owned but only on the increase in the retail prices index from the date of purchase until the earlier of the date of sale or December 2017 (see Section 6.4)

- The same CT rates that apply to income also apply to capital gains made by companies. Hence, most companies will now pay tax at just 19% on their capital gains (17% from 2020)

- Stamp Duty is payable at a rate of only 0.5% on the purchase of company shares

- You may choose any year-end accounting date for your company that you wish (an individual's property letting business is taxed on a tax year basis)

- Company shares may be passed on in small quantities at regular intervals, thus utilising the donor's CGT and IHT annual exemptions

- A company may claim relief for interest and finance costs incurred for property investment purposes against any income or capital gains arising in the same period or, in many cases, against any income or capital gains of future periods. (But see Section 4.7 regarding furnished holiday lettings)

- A company may also claim relief for other losses arising from a UK property letting business (excluding interest and finance costs) against any other income or capital gains which it has for the same period or, in most cases, a later one. (Note, however, that this does not apply to losses on furnished holiday lettings)

- A company is not subject to the limits on relief for trading losses which apply to individuals (see Section 13.9). Some limits do apply: but only to amounts in excess of £5m

- An investor may claim relief for interest costs on funds borrowed to invest in a property company against any other income, including salary, self-employment income or their own personal rental income. (Although this relief is subject to some limitations – see Section 13.9 for details)

- Only companies are eligible for up to 150% tax relief for the costs of cleaning up and preparing contaminated land for development

Using a Company: The Cons

- Companies do not get a personal allowance

- Companies do not get an annual exemption for capital gains purposes

- Companies are not eligible for entrepreneurs' relief for capital gains purposes. (Individuals may claim entrepreneurs' relief on qualifying business disposals, reducing the rate of CGT to just 10% on up to £10m of capital gains. This relief will seldom apply to property investors, however, except in the case of furnished holiday lettings)

- Any personal use of properties owned by the company by the investor or their family may have severe tax consequences. This should be contrasted with the CGT benefits of personal use when investing in property directly

- Personal tax liabilities will usually arise when extracting trading or rental profits or property sale proceeds from the company

- It can sometimes be more difficult to obtain relief for certain administrative expenses, such as 'use of home as office' and motor expenses, when investing via a company

- The Stamp Duty exemption for lower value company share purchases only applies to purchase consideration not exceeding £1,000 (compared with the Stamp Duty Land Tax ('SDLT') exemption for property purchases under £40,000)

- Companies cannot have a principal private residence, and hence are unable to claim the principal private residence exemption, private letting relief, or rent-a-room relief

- UK resident companies may face an 'exit charge' on emigration

- Companies are not eligible to calculate taxable profits on a 'cash basis'

- Many other personal tax planning techniques, such as investing in Enterprise Investment Scheme shares, are simply not available to companies

When it comes to the important issue of capital gains, we can readily see there are more cons than pros here. This, however, is set off by the fact that companies will pay tax at just 17% on most capital gains in the future (after April 2020).

Furthermore, the benefit of the lower CT rate is highly significant, especially when combined with the more generous regime for relieving interest costs and other rental losses when using a company. As we shall see later in the guide, these benefits will sometimes be large enough to ensure the company route does remain preferable overall.

The biggest 'con', however, is the potential additional tax arising when rental profits or property sales proceeds are extracted from the company. What this, and all the other 'cons' set out above, mean is that using a company is an extremely complex decision requiring very careful consideration.