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Using a Property Company to Save Tax

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Important Legal Notices:

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Foreword

By the author

This sixteenth edition of *'Using a Property Company to Save Tax'* comes at a time of great difficulty, uncertainty, and stress to us all. At the time of writing, the coronavirus crisis is still at a critical stage. If you are reading this guide many months, or even years, from now, you may be puzzled by the odd comment written in the context of the current situation. Hopefully, from your point of view, it is all just a bad memory.

Naturally, this edition is fully updated for all the technical changes in property taxation, and company taxation, that have taken place, including temporary changes made in response to the coronavirus crisis and the 'window of opportunity' this may provide for those looking to transfer property into their own company in the near future. That 'window of opportunity' may be further enhanced by current market conditions, which could mean even greater savings are available in some cases. We will look at the impact of the current, hopefully temporary, reduction in some property values later in the guide.

However, this guide is also about long-term planning opportunities for property investors using a company. Hence, while we cannot ignore the fact the current situation is somewhat different to usual, when we come to look at long-term predictions, it makes sense to assume what we all hope: namely that the private rented sector, other property businesses, and property values, will all swiftly recover from this crisis and return to more normal patterns of growth, rental yield, etc, before very long.

Nonetheless, while we hope the commercial situation will return to a more normal position in the near future, it is also likely the tax environment will change significantly as a result of the coronavirus crisis. However, while it is highly likely significant tax changes will take place, it is impossible to predict exactly what those changes will be, or when they will happen. Hence, since there is now so much uncertainty about potential future tax changes, I have decided to take a two-pronged approach in this edition of the guide.

Firstly, for the majority of the guide, I have simply based my calculations on the current tax regime, assuming no future tax changes. While I am certain there ***will*** be significant changes in the future, using the current regime gives us a solid 'base' from which to make our analysis of the tax-saving potential of using a company.

Those potential tax savings arise not because of the company tax regime alone, in isolation, but because of the differences between the company tax regime and the personal tax regime. The Government is generally keen to maintain a balance between the personal and company tax regimes, so it is not unreasonable to suppose most future tax changes will have a broadly similar impact on both regimes overall. Hence, the opportunity to save tax by using a property company should remain broadly the same.

Secondly, however, there are a few pointers about some of the future tax changes we may see, and it is worth taking a look at these and their potential impact on property companies. There is also the possibility some future tax changes may be specifically targeted at property companies, or small companies and their owners in general. For this edition, I have therefore added a new chapter to take a more detailed look at the potential consequences of some of the more likely future tax changes, including recommendations made by the Office for Tax Simplification (yes, there really is such a thing) regarding potential changes to Capital Gains Tax, in a report issued in November 2020.

Combining these two approaches should, I believe, give property investors as much guidance on the long-term implications of using a property company as it is possible to give.

People in the UK have invested in property for centuries, but substantial increases in personal wealth and disposable income over the last few decades, together with problems in other areas of investment, have made property investment an important area of personal financial planning. I personally believe the property investment sector as we know it today is here to stay. Naturally, the sector will have its ups and downs, as any business sector does, but the philosophy of property investment as a 'career move', or a 'pension plan', is now so well entrenched it is impossible to imagine it could ever disappear altogether.

In 2002, in response to the huge demand for advice on property taxation 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 is responsible for the fact our first guide is now in its twenty-fifth edition and this guide in its sixteenth.

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

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 caters for the whole range of property businesses our readers undertake.

As I have already suggested, many people now enter the property investment business as a profession, or 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 I am, I give them one, "Maybe!"

Being an accountant, you may think my slightly evasive response is merely a ploy to enable me to earn more fees from consultancy work. However, you would be 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 retired from consultancy work now anyway!)

The first aim of this guide, though, ***is*** to answer that question, not in a single word, but in the many thousands of words that, 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 to that applying to individuals, or indeed to partnerships, trusts or other potential investment vehicles. The company tax regime has a few quirks, which can prove to be costly traps for the unwary. It is therefore extremely important any property investor considering the company route understands what they are getting themselves into.

In Chapters 3 to 8, we will move on to a more detailed look at the taxation of UK property companies. Here we will discover there are several different types of property companies and each gives rise to a different set of tax implications that need to be considered carefully by the prospective corporate property investor.

Chapter 9 covers the crucial issue of how and when to extract funds from your company tax efficiently: something almost every property company owner will want to do sooner or later, and which has a profound impact on how beneficial your company will be.

Chapter 10 provides a summarised comparison of the tax position of companies and individuals. Following that, in Chapter 11, we take a detailed look at 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 12 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 interest and finance costs. These restrictions are covered in detail in the Taxcafe.co.uk guides *'How to Save Property Tax'* and *'The Big Landlord Tax Increase'*, although we will also take a brief look at them in Chapter 12 of this guide.

Companies are not subject to these 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 that 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, personal rental profits, or other income.

In Chapter 12 we will see the difference this 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 decide whether a property company is appropriate for you: by undertaking a detailed examination of your individual position and weighing up all 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 you need to consider.

Whether you're one of those 'professional investors' I referred to earlier, or one of the many 'gifted amateurs' I 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 about whether to use a property company or not.

And 'yes' or 'no' are not the only answers to the property company question you may come up with. Many property investors decide the answer for them is 'partly' or 'later'.

There is absolutely nothing to stop an investor running two property businesses in parallel: one as an individual and one through a company. Many investors also find the best route for them is to start with a small property business owned personally then 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, you will want to set up and run your company in the most beneficial way possible.

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

A great deal of this advice is included in the early chapters of this guide where, in addition to providing an overall summary of the property company tax regime, we have already covered many potential planning opportunities and possible pitfalls. Nonetheless, the later chapters include many further tax-saving opportunities available to property investors setting up and running their own property company, supplementing the wealth of information already provided.

In Chapter 13, we will look at some of the practical issues you need to know when setting up and running a company. In addition to dealing with HMRC and satisfying the company's tax obligations, we will also cover accounting requirements, dealing with Companies House, and the question of whether you need an auditor (and how to choose one).

Chapter 14 examines the issue of putting an existing property business into a company. The stakes are high, with massive savings available in the right circumstances, but many costly traps awaiting the unwary. We look at how to avoid the traps, mitigate the costs and maximise the benefits; as well as alternative strategies you might want to pursue instead. This edition also includes illustrations of the substantial additional savings that may be available due to the 'window of opportunity' mentioned above.

Chapter 15 highlights some additional tax issues for property companies and their owners and Chapter 16 introduces some more specialised property company structures.

Finally, Chapter 17 summarises our findings, as well as looking at the possible future tax changes we may see over the next few years, and considering their potential impact on the question of whether using a property company will still save you tax in the years to come.

Tips and Warnings
Sprinkled throughout this guide, you will 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. There are also a few **'Practical Pointers'** designed to make life easier. Watch out for all 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-UK resident investors or non-UK resident companies are covered briefly in Section 15.5).

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

i) Income Tax rates applying to Scottish taxpayers: Section 15.8
ii) Land and Buildings Transaction Tax on purchases of property in Scotland: Section 8.10
iii) Land Transaction Tax on purchases of property in Wales: Section 8.11
iv) Corporation Tax for companies operating in Northern Ireland: Section 2.3

The implications of these variations for investors using a property company are covered within the relevant sections listed above. In most cases, the variations make 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 Wales, and the name of the tax will be different, but this will generally make little difference: although the current Stamp Duty Land Tax 'holiday' does mean there are bigger differences than usual at present.

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 Limited 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 (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.

As discussed above, for this edition, I have generally assumed market conditions will swiftly return to normal following the coronavirus crisis. Additionally, for the majority of the guide, I have assumed the UK tax regime will remain unchanged in the future except to the extent of any announcements already made at the time of publication.

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 (a lesson we have surely all learned this year!) Hence, while I believe the conclusions I have drawn in this guide are validly based on sound principles, the reader must nevertheless bear in mind those conclusions are, to some extent, dependent on uncertain predictions about the future.

The tax rates and allowances for 2020/21 are included in Appendix A. For illustrative purposes, we will assume these rates continue to apply in future years, unless stated to the contrary.

Appendix A also includes estimated tax rates and allowances for 2021/22. These are based on the latest Government announcements (see Section 17.2 for details). However, these remain estimated figures and have therefore not been used for the purpose of any calculations in this guide.

In reality, we are bound to see more significant changes to the UK tax system in the future. While we have no idea exactly when such changes will take place, they will almost certainly occur within the timescale most long-term property investors are considering. Hence, in Chapter 17, at the end of the guide, I have analysed the potential impact of some of the changes 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 there will always be a great many property investors for whom the use of a company vehicle to hold their investments will continue to be highly beneficial.

About the Examples

In addition to the points made above regarding the future of the UK tax regime, please note, 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 15.8 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 to 'married couples', or 'spouses'. In each case, the treatment being outlined applies equally to married couples of all types and to civil partners.

References to 'married couples' should be taken to include registered civil partnerships; references to the taxpayer's 'spouse' will include their civil partner where relevant; and references to 'husbands' or 'wives' will include spouses of the same gender and civil partners.

However, it remains important to remember, 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.

Lastly, it is worth pointing out that, while marriage, or civil partnership, is generally advantageous for tax purposes, there are some important exceptions. It really is a case of 'for better or worse'!

Abbreviations and Terminology

Generally, at Taxcafe, we don't like using jargon because we want to keep our guides as simple as possible. To save some space, 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 each abbreviation the first time we use it and they are set out again in Appendix D for ease of reference.

- The word 'Limited' (as in 'Taxcafe UK Limited', for example) will be abbreviated to 'Ltd'.
- Large amounts, such as £1,000,000 or more, are abbreviated by use of the letter 'm'. For example, £2,500,000 will be written as '£2.5m'.
- Business asset disposal relief (mentioned several times in this guide) was formerly known as entrepreneurs' relief.

The Last Word

When it comes to tax, I believe you should never pay more than your fair share, and you have every right to undertake sensible planning measures to legitimately reduce, or delay, your tax bills. However, when all is said and done, the reason we pay tax is to fund vital public services, something that is now more important than ever. Tax is the hallmark of civilisation and, while I will help you pay no more than your fair share that is still something we should all remember.

Whatever type of property investor you are, and whatever decision you reach about the benefits of using a company, I would like to thank you for buying 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, former Chancellor George Osborne announced a series of reductions in CT rates. These were later improved upon, with further reductions announced in subsequent Budgets, although, sadly, a recent U-turn announced by Boris Johnson means the CT rate has remained 19%. For the purposes of our calculations in this guide, we will assume it will remain 19% for the foreseeable future, although this is an issue we will return to in Chapter 17.

While CT rates have fallen over the last decade, Governments of all persuasions have put in place a series of personal tax increases for individuals. With 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 the CT rate considerably lower than higher rate Income Tax at 40% or additional rate tax at 45%, many investors feel 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 12) 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 we have published a whole guide dedicated to this question indicates it is not!

Yes, at first glance, the CT rate does 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 the issue in greater depth, we will see the CT benefits are not always 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 range of CGT reliefs available to individual property investors, there is sometimes a danger 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 many situations where using a company can prove advantageous to the long-term 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 these businesses are treated for Income Tax and NI purposes means 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 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 issues to be considered in the decision whether to use a company. 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.

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 as the business 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 & Management/Succession Planning

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 move on to other ventures. However, you may still have a highly profitable business you do not yet wish to sell.

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

> **Tax Tip**
>
> A company is often a good vehicle for passing wealth to children (or other intended beneficiaries). The problem with a property investment or letting business is 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 effectively allow the owner to pass on small parcels of ownership over a number of years. 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. See the Taxcafe.co.uk guide *'How to Save Inheritance Tax'* for further details.
>
> **Wealth Warning**
>
> Conversely, a property company may prove disadvantageous on the owner's death: see Section 15.7.

Finance

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

Conversely, for larger portfolios, corporate status seems to become a positive factor in the eyes of many lenders.

Some advisers suggest a 'Deed of Trust' could be used to get around the difficulties of raising finance for a property company. We will look at how this type of arrangement might work in Section 12.7.

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 what part of the UK (or other country) you and your properties are located in.

As I am not a lawyer, I will not attempt to advise property investors on these issues. The advice I **will** give is 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 and certain other documentation with Companies House. We will take a closer look at these requirements in Chapter 13.

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 incorporation brings.

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 **a company often produces a better result on income BUT personal ownership can sometimes produce a better result on capital growth**.

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

Using a Company: The Pros

- Companies pay CT at just 19% on any level of annual profits, including capital gains
- Companies are not subject to the horrendous restrictions on relief for interest and finance costs that apply to individuals
- You may choose any year-end accounting date for your company
- A company may claim relief for interest and finance costs on rental properties against any income or capital gains arising in the same period or, in many cases, against income or capital gains of future periods. (But see Section 4.9 regarding furnished holiday lets)
- A company may also claim relief for other losses arising from a UK property letting business against other income or capital gains it has for the same period or, in most cases, a later one. (This does not apply to losses on furnished holiday lets)
- 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 12.11)

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 business asset disposal relief (see Section 7.3)
- Any personal use of properties owned by the company, by the investor or their close relatives, may have severe tax consequences
- Personal tax liabilities usually arise when extracting trading or rental profits, or property sale proceeds, from the company
- It may sometimes be more difficult to obtain tax relief for certain administrative expenses, such as 'use of home as office', when investing via a company
- Companies cannot have a private residence, and hence are unable to claim principal private residence relief, or rent-a-room relief
- Companies cannot calculate taxable profits on a 'cash basis'

Despite some of these 'cons', the benefit of the lower CT rate is highly significant, especially when combined with the more generous regime for relieving interest costs when using a company. As we shall see later in the guide, these benefits will often be large enough to ensure the company route remains preferable overall.

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

Chapter 2

A Plain English Guide to Corporation Tax

2.1 WHAT TAXES DO COMPANIES PAY?

In this chapter, we will take a detailed look at how CT is calculated: sticking, as far as possible, to plain English. First, however, it is worth summarising the taxes companies pay.

Income and Capital Gains
A UK resident company pays CT on its total profits, made up of its worldwide income, profits and capital gains. It does not pay Income Tax or CGT (see Section 15.6 for exceptions occasionally applying to gains realised before 6th April 2019).

Occasionally, a company may suffer a deduction of Income Tax at source on part of its income, but this can be deducted from its CT liability for the same period.

Stamp Duty and Stamp Duty Land Tax
Companies generally pay Stamp Duty and SDLT on their purchases at exactly the same rates as an individual; with the exception of some purchases of residential property for a consideration in excess of £500,000 or the first purchase of any residential property. These taxes are covered further in Chapter 8.

Inheritance Tax
Companies are only liable for IHT in the most exceptional of circumstances and, even then, the tax only arises as a result of external factors involving the company's shareholders. A company does not die, so IHT does not arise. Instead, companies are wound up and we will come to the implications of this later in the guide.

None of this alters the fact that, when a shareholder dies, the value of their property company shares must be taken into account as part of their estate for IHT purposes.

VAT
Broadly speaking, a company is liable for VAT in the same way as an individual.

National Insurance

If you employ anyone to help you in your corporate property business, the company will be liable for secondary Class 1 NI, at the rate of 13.8%, in its capacity as an employer (subject to the £4,000 employment allowance and other exemptions covered in Section 9.2).

The company is also liable for Class 1A NI on any benefits in kind provided to employees and Class 1B NI on any voluntary settlements negotiated with HM Revenue and Customs ('HMRC') (e.g. on the cost of sandwiches provided at lunchtime business meetings).

Furthermore, like any other employer, the company has to deduct primary Class 1 NI from its employees' pay and account for this through the PAYE system.

All of this is exactly the same as when you employ someone to help you in your sole trader or partnership business. The key difference, however, comes from the fact that NI will also be due if you pay yourself a salary out of the company's profits, or provide yourself with any benefits in kind (such as a company car). We will look further at the implications of this in Section 9.2.

Apart from Class 1, 1A and 1B, a company cannot be liable for any other Class of NI. Unlike a sole trader or partnership, this remains the case regardless of what type of property business you have and there can never be any question of Class 2 or Class 4 NI being payable.

The Annual Tax on Enveloped Dwellings ('ATED')

ATED applies to companies owning UK residential properties worth in excess of £500,000, which are not in 'business use'. We will look at this charge in more detail in Section 15.6.

2.2 INTRODUCTION TO CORPORATION TAX

All of a company's income and capital gains for an accounting period are added together and treated as a single total sum of profits chargeable to CT (apart from some gains arising prior to 6th April 2019 that are subject to CGT: see Section 15.6).

The starting point for establishing the company's taxable profits is its statutory accounts for the relevant accounting period (see Section 13.6). Further, more detailed, accounts may also need to be prepared where the company has more than one type of income for CT purposes.

Fundamentally, capital gains, rental profits and trading profits within a company are all calculated in much the same way as for individuals. However, differences arise in the way the income and gains are taxed; the way interest and finance costs are relieved (see Section 4.9); the reliefs and exemptions available; and the rates of tax applying.

We will return to the differences between the corporate and personal tax regimes in Chapters 10 to 12, where we will be taking a detailed look at their impact on the property investor.

Financial Years

CT operates by reference to 'Financial Years'. Just to make life even more confusing than it already undoubtedly is, the Financial Year is slightly different to the tax year ending on 5th April that applies to income received by individuals.

A Financial Year is the year ending on 31st March in any calendar year, but is officially described by reference to the calendar year in which it began. Hence, for example, the 2020 Financial Year is the year commencing 1st April 2020 and ending 31st March 2021. It is important to be aware of this official terminology, as this is what is used on the CT Return.

Periods Spanning Two Financial Years

Where your company's accounting period does not end on 31st March, it will generally span two Financial Years. The profits of the accounting period are then split across the two Financial Years on a pro rata basis. For example, a profit of £100,000 for a twelve month accounting period ending 31st December 2020 would be split as follows:

2019 Financial Year: £100,000 x 91/366	£24,863
2020 Financial Year: £100,000 x 275/366	£75,137

2.3 CORPORATION TAX RATES

Since 2015, there has been one single CT rate applying to companies of all sizes and profit levels (except companies operating in the oil and gas sector). The past, current, and confirmed future levels of this single CT rate are as follows:

1st April 2015 to 31st March 2017:	20%
1st April 2017 to 31st March 2022:	19%

The position beyond March 2022 is currently unknown but, for the remainder of this guide, we will assume the rate will remain at 19% for the foreseeable future. This is effectively now our best forecast for the long term and we will be basing our calculations on this rate when we come to make our long-term predictions regarding the benefits of a property company later in the guide.

Northern Ireland
Different rates are to apply to companies trading in Northern Ireland at some point in the future. The rate is likely to match the rate used in the Irish Republic. That rate is currently 12.5% but, like everything else, it may, of course, change in the future. Furthermore, the date of introduction for the special rate for Northern Ireland remains uncertain.

Nonetheless, if and when the proposals for a separate CT rate for Northern Ireland come to fruition, taxpayers investing in property in the province may be able to save an additional 6.5% of rental or trading profits derived from Northern Irish property by using a company.

2.4 PAYING CORPORATION TAX

For most companies, CT is due in one single lump sum payable within nine months and one day after the end of the accounting period. For example, the CT for the year ending 31st December 2020 is due by 1st October 2021. All CT liabilities must be paid online and, as usual, interest is charged on late payments. Unlike Income Tax, interest on overdue CT is a deductible expense.

Larger companies with annual profits in excess of £1.5m must pay their tax in quarterly instalments. Very large companies or groups with profits in excess of £20m are subject to even earlier payment dates: such companies are now required to pay all their CT ‘in-year’.

2.5 CASHFLOW BENEFITS OF USING A COMPANY

The timing of a company’s CT payment is totally dependent on its accounting year-end date. This is quite different to individuals and partnerships, where tax is always due on the same dates under the Self Assessment system (i.e. instalments on 31st January during the tax year and 31st July following the tax year, with a balancing payment, or repayment, the following 31st January).

For stable and profitable property businesses, there is a huge cashflow advantage to using a company. This is quite independent of any tax savings that might be involved. Let’s look at an example by way of explanation:

Example
Gordon has a thriving property letting business. His Income Tax liability has remained at the same level for a number of years (pretty rare in practice, but this is just an example, after all) and hence he has to pay half his tax on 31st January within the tax year and half on the following 31st July. If we ‘averaged out’ these two payments, this would be equivalent, for cashflow purposes, to a single payment on 1st May.

*Remember that, like any other individual with property letting income, Gordon MUST pay tax based on his profits for the year ending 5th April. Hence, on average, he effectively has to pay his tax just **26 days** after the end of his accounting period!*

If we contrast this 26-day 'average' payment period with the nine months and a day available to most companies, we can see what a large cashflow advantage the companies have: over eight months!

Wouldn't you rather keep your money for an extra eight months? Think what you could do with it in that time, especially in the rapidly moving property investment sector!

What if Profit isn't Stable?

The example above is perhaps not entirely typical, as it is based on a stable annual profit. In practice, profits tend to fluctuate, which can sometimes mean the company cashflow advantage is not quite so great. Nevertheless, in the vast majority of cases, the 'average' payment date for an individual investor (or partnership) would still fall within three months of the end of the accounting period, meaning a company would usually produce at least six months of cashflow advantage.

> **Wealth Warning**
>
> If the company is making large enough profits to be under the quarterly instalment system (see Section 2.4), its 'average' payment date is actually about a month **before** the end of its accounting period. In this case, the company produces a cashflow *disadvantage* (although, by the time profits have reached this level, other considerations are likely to be more important).

> **Tax Tip**
>
> As already explained, a company may choose any accounting year-end date, whereas an individual property investor is effectively forced to stick with 5th April (accounts can be drawn up for any period but the tax liability will always be based on profits for the year to 5th April). In the corporate regime this can sometimes provide scope to delay tax on profits that do not arise regularly over the year. This is particularly relevant to holiday lets or student accommodation.

Example

Laura lets out a number of student flats through Laura's Lettings Ltd. Generally, they are let from October to June, but are often vacant during the summer. Hence, all of Laura's profit arises during the nine months to June. If the company were to draw up accounts to 30th June, its CT liability would be due on 1st April the following year. Instead, Laura arranges for Laura's Lettings Ltd's accounting year-end to be 30th September. The company's CT is therefore not due until 1st July the following year. This simple step gives Laura an extra three-month cashflow saving every year!

2.6 COMPANY TAX RETURNS

Companies fall under a self-assessment system referred to as Corporation Tax Self Assessment or 'CTSA' for short. Under CTSA, the company is generally required to submit a tax return within twelve months of its accounting date.

The CTSA return document is called a CT600. With its CTSA return, the company is also required to submit its accounts; a CT computation (a calculation of the amount of profits and gains chargeable to CT for the accounting period); and a CT self-assessment (a calculation of the amount of CT due). The last two items can generally be prepared as a single combined calculation and there is plenty of accountancy software available to produce this.

Online filing of CT Returns and supporting documentation is compulsory. Electronic versions of the supporting documents outlined above need to be submitted in 'iXBRL' format.

Making Tax Digital

As many readers will be aware, the Government is planning to introduce a new quarterly reporting system, known as 'Making Tax Digital', or 'MTD' for short. At present, the system is only mandatory for some businesses and only for VAT purposes. The Government is, however, planning to make the system mandatory for most businesses for Income Tax purposes from April 2023 (see the Taxcafe.co.uk guide *'How to Save Property Tax'* for further details).

Current plans for the introduction of MTD for CT purposes include a voluntary pilot due to start in 2024, with the introduction of mandatory MTD for CT in 2026, or possibly later.