

The Rise of Buy-to-Let Through a Limited Company

Today, we take a look at why UK Expats and overseas buyers are using a UK limited company vehicle to build a property portfolio and grow their wealth.

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/EINPresswire.com/ -- According to UK Companies House, 41,700 new [buy-to-let](#) limited companies were formed in 2020. Information available at Companies House also suggests that, at the end of 2020, there are 228,743 active buy-to-let companies which is an all-time record. Given the benefits of buying in this way, it's no surprise that more people are looking to purchase buy-to-let properties through limited companies. In fact, over 85% of new buy-to-let [mortgage](#) applications are submitted in the name of a [limited company](#). But why is this the case? And why is buying through a limited company the best way to purchase a buy-to-let property going forward?



House prices in the UK are rising at 6 times the rate of flats, making houses an excellent investment opportunity for those looking to buy through a limited company.

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Greater numbers of buy-to-let mortgage providers are entering the market in answer to the increased demand for Limited Company mortgages as landlords look for ways to avoid extra costs.”

Stuart Marshall

It's all in the Numbers.

In April 2020, new legislation was introduced meaning that individuals can no longer claim mortgage interest as an expense. Without this tax relief, many private landlords will see an increase in their declared income which attracts tax at higher rates (as opposed to taxable income that would prevail in a limited company vehicle). This is one key reason why people are opting to buy through a limited company rather than as a private landlord.

Up until this year, private landlords were able to claim tax relief on all their mortgage interest payments in line with their specific tax brackets (currently

20% for basic-rate taxpayers, 40% for higher-rate taxpayers, 45% for additional-rate taxpayers). However, new regulations mean that the amount landlords can claim will be reduced to zero and any financing costs will be treated at the prevailing basic rate tax. With a limited company, the full interest amount can still be offset against profits and is subject to current corporation tax at 19%. Furthermore, a variety of reliefs are also available which all add up for an investor.

'Up until the tax year 2016/17, a private landlord enjoyed generous tax relief on their property. Let's look at the numbers to put this in perspective. A property with a rental income of £15,000 pa and an interest rate of 3.49% equates to mortgage interest payments of £7,852.50, leaving a taxable profit of £7,174.50. The tax due for a higher rate taxpayer is £2,859.00, leaving the landlord with a net profit of £4,288.50. Fast forward to tax year 2020/21. Using the same assumptions and figures, taxable profit is reduced to £6,000.00 and the tax due is now £4,429.50, leaving the landlord with a greatly reduced net profit of £2,718.00.'

'However, applying the same figures to a limited company for 2020/2021 means that the taxable profit is £7,174.50. Corporation Tax due is at 19% so tax payable is £1,358.02. The limited company landlord is left with a very respectable net profit of £5,789.48. In the same tax year, the landlord will make £3,071.48 more net profit in a limited company compared to personally owning the property.'

Other Tax Benefits of Limited Companies for Buy-to-Let.

'We're seeing a lot of landlords apply for limited company buy-to-let mortgages as many of them



As a private landlord, you are subject to income tax (40% for higher rate tax payers) whereas owning a property through a limited company means you are only subject to corporation tax (currently 19%).



If you are a private landlord, your children will be subject to 40% inheritance tax on your portfolio in the event of your death. On the other hand, this inheritance tax can be mitigated if your properties are held in a limited company.

are looking for ways to avoid extra costs. Greater numbers of buy-to-let mortgage providers are entering the market in answer to the increased demand for limited company mortgages,' says Stuart Marshall, CEO of Liquid Expat Mortgages. 'And there are other tax benefits to be had from using a limited company for buy-to-let. Most notably, if you are a private landlord, your children will be subject to 40% inheritance tax on your portfolio in the event of your death. On the other hand, this inheritance tax can be mitigated if your properties are held in a limited company. An example might be that you make your children shareholders in the limited company, allowing them to benefit from your investment without them being subject to expensive death duties.'

Flexibility.

'Owning buy-to-let property through a limited company is also incredibly flexible and increases opportunities to build property portfolios. One reason for this is that you can grow your property portfolio within the company as you will not pay income tax on any retained profit. This means more money is available to re-invest and grow your wealth. Moreover, changes to the rules on mortgage affordability criteria made in 2018 mean that limited companies are not subject to strict affordability criteria in the same way as a private borrower. As such, you could borrow more than a private landlord, thereby allowing you to further build your property portfolio.'

Liability.

'One last benefit of owning buy-to-let property within a limited company is the potential reduced liability that this offers you. Since you do not own the property personally, you aren't liable for tenant debts like outstanding council tax or utility bills. Often, for private landlords, companies chase the property owner directly for the outstanding amount owed by the tenant. This can lead to problems like damaged personal credit scores. This will not happen if your property is held in a limited company, protecting you from potential bad tenants'.

Contact Us.

'As always, we recommend that you talk to a specialist expat broker - like Liquid Expat Mortgages - to assess your requirements correctly and be able to present the best possible deals available' advises Stuart Marshall. 'While buying through a limited company is a great way to build a buy-to-let property portfolio, we might be able to offer further insight into your needs.'

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