

Frequently Asked Questions

LIMITED COMPANY BORROWING

Q. How will the restriction of relief on BTL mortgage interest affect landlords?

From the tax year 2020/21, higher and additional tax rate (40% and 45% respectively) paying landlords who personally own buy to let property will only be eligible to claim tax relief on finance costs – including mortgage interest – at the basic rate of 20%, instead of at their highest marginal rate. This change was phased in over four years starting in 2017/18 when one quarter of interest costs will be subject to the restriction. This restriction will also hit landlords whose total income including buy to let income (before deducting finance costs) is sufficient to push them into a higher tax bracket.

The changes do not affect landlords who own their buy to let property in a corporate vehicle (usually SPV limited company); however, for individuals whose rental income (net of expenses other than finance) is sufficient to push their total income into a higher rate tax bracket and for higher and additional tax rate payers borrowing personally, they will find their profits after tax to be less going forward.

Q. Should my clients be borrowing via a limited company going forward?

For many landlords, taking out a buy to let mortgage via a limited company is now more tax efficient than borrowing personally, although we advise you to recommend to your clients that they seek professional tax advice before they make any property investment decisions. Also, limited companies are not subject to the stricter affordability checks on personal BTL borrowing which was introduced by the Prudential Regulation Authority on 1 January 2017. This means that, in general, they can borrow more against a subject property than a landlord borrowing personally.

Q. How will my clients' taxation work through a limited company?

Limited companies pay Corporation Tax, not Income Tax, and as such are not affected by the changes to tax relief on finance costs for personal BTL borrowers. However, the owners of the company will then need to extract the net income from the company at which point income tax on salary and / or dividends will be due. Everyone's circumstances are different so please ensure your clients take professional tax advice before proceeding.

Q. Does it take longer to process a limited company application?

Always err on the side of caution and allow extra time. Generally speaking, applications made by individuals and newly established SPV limited companies take a similar time to process, as the background checks are only carried out on the individual applicant/director(s) of the SPV. SPVs with existing properties and trading limited companies will take longer to process because checks have to be carried out on the company as well as the individual.

Q. Are buy to let mortgages for limited companies more expensive?

Keystone Property Finance has the same rates for individuals, SPVs and trading limited companies. It all depends on the lender but bear in mind that many mainstream providers of "vanilla" buy to let mortgages do not have mortgage products for SPV or trading limited companies. Whilst limited company BTL mortgage applications do take more time and require a higher level of underwriting skill, not all lenders pass the additional costs onto the borrower.

Q. Why can my client borrow more via a limited company than personally?

As a result of the changes to income tax relief on finance costs, on 1 January 2017, the Prudential Regulation Authority (PRA) introduced new guidelines requiring lenders to tighten affordability checks on buy to let landlords borrowing personally. Limited companies however do not pay Income Tax so the new guidelines do not apply which means that lenders are able to give them more generous income cover ratios.

Q. SPV or trading limited company? Does it matter?

Keystone offers the same pricing to both SPVs and trading limited companies, but this is not the same for all lenders. From a lender's perspective applications from SPVs are quicker and more straightforward to underwrite than applications from trading limited companies which require a greater level of understanding by the individual underwriter. Because of this there are more options available for SPVs and the pricing tends to be lower.

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Keystone
Property Finance

Q. What's the difference between an SPV and a trading limited company?

Special Purpose Vehicle limited company is a corporate structure set up for the purpose of holding property only, unlike a trading limited company which is used to run a business.

Q. How would my client set up an SPV limited company?

Your client can either ask their accountant to set one up or they could do it themselves online at Companies House. Setting up an SPV online is relatively quick, easy and inexpensive. Full details can be found at Gov.uk.

Q. What is a SIC code?

The Standard Industrial Classification of Economic Activities (SIC) is used to categorise business establishments by the type of economic activity in which they are engaged. Most lenders require limited company borrowers to have an SPV SIC code (68100, 68209 or 68320) but a trading limited company SIC code can be anything.

Q. How do you get a SIC code?

To choose a SIC code(s) for your company, use the official Condensed SIC list on the Gov.uk website. A SIC code can only be altered when filing the SPV's Annual Return (which has now been re-branded as a "confirmation statement") with Companies House; however, it is possible to file these at any date (in advance of when due) and thereby change the SIC code for the company.

Q. Can my clients borrow through a newly created SPV with no accounts?

Yes. The mortgage will be underwritten based on the individuals' (directors and/or majority shareholders) circumstances. All lenders will require that directors and majority shareholders provide personal guarantees which means that they are ultimately responsible for the mortgage in the event that the company is unable to settle mortgage liabilities.

Q. Can my clients simply transfer personally owned rental property to a limited company?

No. By law, the transaction has to be treated as a sale by your client to their company and will be classed as a related or linked transaction. The good news is, most buy to let lenders who offer products to limited companies, will consider related transactions – including Keystone!

Bear in mind that the sale is a taxable event which means that your client will usually have to pay Capital Gains Tax on the sale as well as stamp duty (SDLT) including the 3% surcharge on the purchase by the limited company. In certain circumstances the Capital Gains Tax can be "rolled over" into the shares in the limited company, and incorporation of a property owning partnership may be exempt from stamp duty. Your client will need to check with their accountant or solicitor on the impact of these taxes and reliefs