Ancojada Group

Property Taxation

Re-structuring of property landlords investments

Do you run a buy to let / property rental business?

If so, you've likely been impacted by the raft of property tax legislative changes affecting landlords over recent years and are increasingly feeling the financial squeeze as a result.

Government legislation has increased 'red tape' and workload for landlords, with large fines introduced for those failing to abide by regulations. To add further pressure, the removal of reliefs such as 'wear and tear' and 'section 24 – mortgage interest relief' now fully in place post tax rental profits, have been significantly reduced as a result of effectively being taxed on notional profits. As a result, it is getting harder to obtain buy to let mortgages where the interest, fees and loan to value ratio are needing to be more commercially viable. All this at a time when the equity being required from the borrowers is at an all-time high.

Plus, it is not just UK resident landlords that need assistance because overseas landlords are now impacted by the capital gains tax changes.

Landlords must also consider the impact of increasing property values on inheritance tax – our approach is to discuss this with you as part of your overall objectives and if this is a concern, we will factor this in to provide a flexible platform to meet your succession planning objectives.

Structuring your portfolio to achieve your objectives is a critical step for the future success of your business. Great care must be taken as it is full of pitfalls for the unwary, however with careful planning these traps can be avoided.

Undertaking a structuring exercise that only deals with a specific issue can leave you open to unintended consequences elsewhere within the structure, both tax and commercial, further down the line. For instance, it may be that you'd considered your capital gains position had been improved but in reality, the underlying liability was simply deferred or that you have an efficient corporate structure for the rental profits only to discover you face significant liabilities when extracting funds into your personal name. It could be that steps you thought you'd taken to allow to plan for future generations to become involved in the business have not had the desired outcome and you still face liabilities today when passing your wealth down.

Structuring your business efficiently is one of the most important steps you can take and although the issues faced in doing so are complex, the rewards for getting it right first time can be monumental whilst the consequence of getting it wrong don't bear thinking about. It is therefore imperative that you seek not only professional advice but the right professional advice.

A Case Study - Drs from Leicester

Our property tax & structure advisers save landlords millions of pounds, help them stay solvent & get monies out of their businesses tax-free.

Here is an example of a landlord, a husband & wife from Leicester, who own property in sole & joint names. They wish to move ownership into a corporate structure, primarily to reduce Income Tax without incurring Stamp Duty or Capital Gains Tax:

- 17 properties are owned, with a combined value of £7 million.
- There is a combined debt/mortgage of £5 million - so £2 million in equity.
- Both are NHS Doctors, each earning an income of £60K p.a.
- Property Rental income from portfolio is £150K p.a.
- After the few remaining allowable expenses are taken into account, the net taxable rental income is £117,500.
- All income is taxed at 45%, resulting in tax payable of £52,875!
- By moving properties into a company, this allows the investors to offset their £100Kp.a. mortgage costs and £35K expenses i.e. petrol, entertaining etc...
- As a result, net taxable income falls to £15K.
- On which 19% corporation tax is paid, equating to just £2,850.
- This is an annual tax saving of just over £50K!!......and that's not all:
- A Capital Gains Tax saving of £3.5 million is made on all existing property, this amount being entirely wiped off the slate!
- Plus.... a £2 million tax-free cash "IOU", which can be taken back from the limited company at any point in their lifetimes: all that personal equity, out of the company, entirely tax-free - No Corporation Tax, No Profits Tax, No Capital Gains Tax or Income Tax!
- But there is more still: They can now each make corporate pension contributions of £40,000 p.a. out of the rental income, into a pension plan; something they could not have done previously as direct owning landlords.

(Source: Gresham Street Partners)

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