BUSINESS SUCCESS

Improving the lives of our clients

Carthy Accountants

SEPTEMBER 2023

THE PROPERTY ISSUE

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- IT COULD BE YOU!

"Buy land, they're not making it anymore" Mark Twain

IS IT TIME TO BUILD YOUR PORTFOLIO?

Many of us will have taken a moment over the summer to reflect on our business goals and finances and decided to make our money work harder for us.

Property investment has always been seen as a solid bet for long-term financial benefit.

However, the market can sometimes seem as unpredictable as a British summer and the risks can feel too much for some potential investors.

Mortgage rates, capital gains, stamp duties, fluctuating house prices and global economic instability can all add to the concerns.

Knowledge is power, and education about bricks and mortar investment can give you a better understanding of what is involved in buying commercial properties, buy-to-lets, property management, and being a landlord.

Whether you're a seasoned investor or your only experience is on the Monopoly board, we've put together some practical information about the market.

We've highlighted the potential benefits as well as the pitfalls (see P3's article on tax avoidance schemes) and would love to talk to you if you are thinking about building a portfolio either for your business or for your financial future.

As ever, we are here for you and always seeking to improve the lives of our clients!

Michael Carthy
Managing Director

BEWARE BUY-TO-LET TAX AVOIDANCE SCHEMES!

Since George Osbourne changed the rules for landlord tax in 2017 there has been a 'loophole' that some have tried to explore.

Most buy-to-let landlords hold their properties personally. So they pay income tax at 40% or 45% on the rental income. Until 2017, their mortgage interest was deductible.

George Osborne changed that, replacing interest relief with a 20% credit.

Although some landlords viewed this as unfair, the purpose was to discourage buy-to-let mortgages.

With corporation tax below 25% for a small company and full tax relief for mortgage interest, the obvious move was to hold the properties in a company.

> "We highly recommend keeping away from such schemes."

While holding properties in a company seems like a good plan, transferring buy-to-let properties into a company presents challenges. There could be additional costs in capital gains tax (CGT) and stamp duty land tax (SDLT).

Corporate mortgages tend to be more costly than buy-to-let mortgages, so the potential increase in interest might negate the tax benefits. Advisers warn against prioritising tax savings without considering associated costs.

Some agencies are offering schemes that try to get around this but it's classed as tax avoidance and we highly recommend keeping away from such schemes.

A TAX AVOIDANCE SCHEME EXAMPLE

Landlord X establishes a new company and sells properties to it in exchange for shares. The sale completion is deferred, with X remaining the registered owner, creating a trust where X is the trustee and the company is the beneficiary. This arrangement is undisclosed to the mortgage lender, avoiding potential consent issues.

The assertion is that creating a trust doesn't violate X's mortgage terms, offers CGT benefits through 'incorporation relief', and might circumvent SDLT if X and their spouse are deemed partners.

While X continues to pay the mortgage, the company reimburses him, claiming tax relief.

This setup is termed a "Smart Company" because the company can issue shares to X's children, which may increase in value over time but aren't initially counted in X's inheritance tax.

Why this doesn't work in reality

When a property is sold to a company without obtaining consent from the mortgage lender, it likely defaults the mortgage, possibly invalidating building insurance for freehold properties. Such transfers without notifying the lender typically breach mortgage terms.

X ends up with a higher tax due to receiving taxable indemnity payments without the ability to claim tax relief. This structure could boost the total tax by 50%.

There is also potential for significant CGT and SDLT upfront, and an annual tax on enveloped dwellings (ATED) return, if overlooked, incurs high penalties.

We believe this structure is highly problematic and ill-advised. We also believe it is tax avoidance.

THINKING OF BUYING

There are multiple reasons why you might want to buy a property through your business. You may need a bigger workspace to expand your business operations. You might want to own your current rented property. Or you may be thinking about starting a property investment portfolio.

1

WHAT ARE THE BENEFITS OF PROPERTY OWNERSHIP?

Buying a property through your company has a number of benefits that make ownership well worth considering. If you're able to take a step onto the property ladder, it makes good business sense and has the potential to bring your long-term plans to life.

For example, by buying property through the business:

- You invest money into a property asset that increases the value of the business.
- You stop making rental payments and start contributing to a commercial mortgage.
- You control the use of the property and give your business greater stability.
- You can sell this property asset if finances get tight and liquid cash is required.

FACT!

The UK residential rental market has tripled in the last 20 years.

Source: Statista

2

HOW WILL YOU FUND THE PURCHASE OF THE PROPERTY?

Unless you have significant surplus cash in the business, it's likely that you'll need to borrow money to buy your property. There are a number of different ways to do this, with lenders offering a range of property finance products aimed at the business sector.

Common finance options will include:

- COMMERCIAL MORTGAGES: A commercial mortgage is a type of loan used to buy a property for business purposes. The mortgage will usually be secured against the property being purchased and will have higher interest rates and require a larger deposit than residential mortgages. It's the most common way to finance your business property.
- BRIDGING LOANS: A bridging loan is a short-term loan that's used to bridge a gap in funding, usually for property transactions. It's secured against the property being purchased and can be obtained quickly, but has higher interest rates and fees than other loans. Bridging loans are often used by property developers or companies that are looking to buy a property quickly and need a fast loan while waiting for other funding.
- DEVELOPMENT FINANCE: A development loan is a type of loan used to finance property development projects, such as building new homes or renovating existing properties with a view to renting them out. The loan is typically secured against the property being developed and is released in stages as the project progresses. Development loans have higher interest rates than traditional mortgages and require a larger deposit.

In appropriate cases, it may be beneficial to consider financing the purchase of property through a Small Self Administered Scheme (SSAS) or other pension scheme.

A PROPERTY?

Whatever your reasons, buying a property through the company is a significant step. Before you take the big leap, here are four of the main considerations to think through.

FACT!

The North East is estimated to see the highest overall growth in house prices between 2023 & 2027.

Source: Statista

3

WHAT ARE THE TAX IMPLICATIONS OF BUYING THE PROPERTY?

When buying a property through your limited company, there are several tax implications to consider. These vary depending on the use of the property, any income you make from renting it out and your plans when selling the asset at a later date.

Taxes that you may be liable for could include:

- CORPORATION TAX: Your company will need to pay corporation tax on any rental income earned from the property. The current corporation tax rate in the UK is between 19% and 25%.
- STAMP DUTY LAND TAX (SDLT): SDLT is payable on the purchase of a property, and the rates vary depending on the value of the property. If you buy a residential property through your limited company, you may have to pay a higher rate of SDLT than if you were buying the property personally.
- CAPITAL GAINS TAX (CGT): If you sell the property, your company may be liable to pay CGT on any profit made. Capital gains in a company are taxed at the same rate as other profits.
- PERSONAL TAX: If you own the company that owns the property, you may be able to receive rental income from the company. This income will be subject to income tax at your personal tax rate.
- ANNUAL TAX ON ENVELOPED DWELLINGS (ATED): If the property is a high-value residential property owned by a company, you may have to pay ATED. The current ATED rates start at £4,150 for properties valued between £500,000 and £1 million.

4

HOW DOES THE COMPANY'S CREDIT RATING AFFECT YOUR ABILITY TO BORROW?

Borrowing the funds you need to purchase your property may seem like a straightforward process. But for any lender to consider extending finance to your business, they need to feel comfortable that you're a low-risk enterprise that's capable of making the repayments.

Lenders prefer businesses that have a good credit score and a low-risk rating. Because of this, it's important to be aware of your current rating and to be proactive in making your business into an attractive lending proposition for banks and alternative lenders.

Many of the big credit agencies now offer services that help you track and monitor your business credit score over time – so you increase the chances of securing a good finance deal.

TALK TO US ABOUT BUYING PROPERTY IN YOUR COMPANY

Buying a property may be the next important step that you take as a company. But it's vital to think through the implications and to understand the purchase process.

If you're looking to buy a property through your company, please come and talk to us. We can explain your funding options and run you through the possible tax implications.

CarthyClub

CONNECT COLLABORATE COMMUNITY

FUNDRAISING FOR A DEFIBRILLATOR ON EASTGATE ST.

THE CARTHY CLUB Golf & Gala

£1,627 raised so far!

The First Carthy Golf Day and Evening Gala!

FRIDAY 22 SEPTEMBER
THE CASTLE GOLF & LEISURE

GOLF (From 1pm):

A Texas Scramble Four Ball event with prizes for longest drive, nearest the pin etc.
Four ball team is £200. Sponsor a hole for £50. Team spaces are limited.

GALA (From 6:30pm):

Live music, casino games, mini-golf competition, and incredible food from GG's.
Please get in touch so we can add you to the invite list.

All profits from both events will be going to the Carthy Defib Fund!

Team News

Some of our team are taking part in the Stafford 10k on Sunday 24th September. All funds raised will be added to the defib fund!

‘I believe you should know quarterly how your business is growing.’

When looking for an accountant Oliver and Rebecca Hadley of Current Electrical and Property Services were looking for someone who would not only understand their business but also help them grow the business too. CE&PS are electrical contractors and also renovate properties for the rental sector. We helped them see the potential for growth in CE&PS which is one of the reasons they chose us!

> **“They are warm and friendly, a nice, family-run business.”**
>
> Rebecca Hadley of CE&PS

Find out more about CE&PS: www.current-electrical.co.uk

Discover how Carthy Accountants can help you: info@carthyaccountants.co.uk

FACT!

Rents for new lets expected to increase by 9% in 2023.

Source: Zoopla

CARTHY BOOK CLUB

We have a few copies of House Arrest. If you would like a copy, contact info@carthyaccountants.co.uk. Once they’re gone, they’re gone!

HOUSE ARREST
RICK GANNON

A PRACTICAL GUIDE TO REPLACE YOUR INCOME THROUGH PROPERTY

Rick Gannon left policing and became a thriving property entrepreneur, centring his expertise on Houses In Multiple Occupation (HMOs). His tale serves both as an inspirational beacon and a pragmatic guide for those venturing into the property market with aspirations to replace their traditional job income.

House Arrest is a roadmap for setting up a successful HMO property business. Gannon delves deep into a multitude of facets, from the critical first step of choosing the right geographical area for investment to navigating the often-complex maze of local and national legislation. He also offers readers insights into the nuances of marketing, securing tenants, managing the properties, and implementing efficient systems to streamline the business.

The narrative isn’t just a series of steps or guidelines. It’s underscored by the harsh realities and challenges inherent in the HMO property world. He emphasises the necessity of continuous improvement, warning potential investors of the volatile nature of income in this domain, especially for those just starting out. Gannon’s message is clear: this business demands resilience, adaptability, and an ever-evolving strategy.

COULD YOU BE A PROPERTY INVESTOR?

Investing in buy-to-let properties is an increasingly popular method for individuals to secure their financial future. However, before venturing into the world of property investment, certain areas require careful consideration.

BENEFITS OF A RENTAL PROPERTY

Property investment offers numerous advantages:

- Rental Income: Ensures a steady passive income stream to cover the mortgage and potentially generate profit.
- Capital Appreciation: UK properties have generally seen an increase in value, leading to potential capital gains.
- Diversified Portfolio: Property investment provides an opportunity to diversify investments, reducing overall risk.
- Inflation Hedge: Properties can serve as protection against inflation as both rental income and property values might rise alongside inflation.
- Tax Advantages: Landlords can benefit from tax deductions related to property expenses and avail tax credits based on mortgage interest payments.

PROPERTY OWNERSHIP

Individual vs. Limited Company:

- Owning as an Individual: Initial property purchases are often made as individuals, giving more control and reducing administrative burdens.
- Owning through a Limited Company: Beneficial for those with multiple properties due to reduced liability and different tax benefits, including corporate tax rates and full mortgage interest deductibility.

FUNDING THE PURCHASE

- Buy-to-Let Mortgages: Tailored for rental properties, but usually require higher deposits and interest rates than standard mortgages.
- Personal Savings: Directly purchasing the property without the need for loans, eliminating interest expenses.
- Equity Release: Accessing property equity through remortgages or specific equity release mortgages.
- Joint Ventures: Collaborating with other investors to share costs and risks.
- Bridging Loans: Temporary loans taken while awaiting long-term financing.

TAX AND ACCOUNTING CONSIDERATIONS

- Tax Implications: Rental income is subject to income tax, and selling the property might incur capital gains tax. Consulting a tax professional is advised to ensure compliance and minimise tax liabilities.
- Record-Keeping: Maintaining detailed records of rental income and expenses is crucial to tracking cash flow and determining profits or losses.

Owning a buy-to-let property comes with risks and responsibilities. These can include managing the property, dealing with tenant issues, the fluctuations in property values and rental demand.

TALK TO US ABOUT PLANNING YOUR RENTAL PROPERTY PORTFOLIO!

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MINDFUL EMPLOYER

Carthy Accountants

Every client matters