



## Is it time to incorporate your rental property portfolio?

Over the past few years there have been numerous changes to the taxation of UK residential property, which have left many portfolio landlords with vastly increased tax liabilities.

One way for landlords to redress the balance and reduce the barrier to growth imposed by the raft of tax changes is to 'incorporate' their property portfolio.

### What is incorporation?

Incorporation is the process of transferring the ownership of your property portfolio from your personal name(s) to a Limited Company managed and controlled by you.

### Why incorporate your property portfolio?

Some of the benefits of incorporating your property portfolio are:

- A tax saving of up to 20% on rental profits. The current rate of Corporation Tax is 25%, whilst the top rate of income tax is currently 45%.
- Mortgage interest is an allowable cost when calculating the profits chargeable to Corporation Tax, whereas individuals can no longer claim mortgage interest as an expense and instead only receive a tax credit equal to 20% of any mortgage interest paid.
- The ability for the Company to make tax deductible contributions into your pension. For individual owners, property income is not 'relevant income' for the purposes of making pension contributions.
- Potential inheritance tax savings with additional planning.
- Simplification for your executors and heirs. Instead of complicated transfers of multiple titles, your executors will only need to manage the transfer of the company shares.

Incorporation can be especially valuable for landlords who are looking to expand their portfolio, as the lower rate of tax on the rental income leaves more cash to finance acquisitions.

Similarly, landlords with sizeable mortgages will benefit substantially from the interest on those mortgages being tax deductible (as it was prior to April 2017 for individuals).

### What are the barriers to incorporation?

From a tax perspective, the incorporation of your property business could trigger a capital gains tax liability for you and a Stamp Duty Land Tax liability for the Company.



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- Capital Gains Tax

The transfer of the properties to the company will, in the absence of any reliefs, be treated as a disposal of those properties at their market value.

Due to the historic performance of property as an asset class, this could trigger substantial capital gains, taxable at rates of up to 28%.

It is however possible that 'incorporation relief' could apply, in which case no chargeable gains will arise at the point of incorporation.

- Stamp Duty Land Tax (SDLT)

The company will be deemed to have paid market value for the properties for Stamp Duty Land Tax purposes, giving rise to an SDLT liability for the Company.

Again, this charge can be averted in certain circumstances, and, even where it isn't, the SDLT charge could be quickly outweighed by the tax savings on the future rental income.

From a practical perspective, the rates of interest offered by lenders to companies are often higher than those offered to individuals. However, the ability to offset the interest against income may outweigh the additional interest charges.

## Is incorporation right for you?

The answer to this question is entirely dependent on your personal circumstances. Verfides can help you to answer this question by reviewing your individual position and providing fully bespoke tax advice and support through the incorporation where that is the right option for you.

## How can Verfides help?

Our team of experts is ready to help you understand whether the incorporation of your property portfolio will be beneficial for you. If you would like to start this journey or have any other tax questions or queries, please email the team [tax\\_team@verfides.com](mailto:tax_team@verfides.com) to see what we can do for you.

London, July 2023

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