ZAZEN TAX

Personal or Company

The landlord's decision, with the cost of getting there set against the saving.

Eight chapters. Read chapter three before you decide.

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Contents

Chapter two is the annual saving. Chapter three is what it costs to collect it, and it is the chapter that changes most people's minds.

1. The one real difference

A company deducts its mortgage interest in full. An individual does not.

Section 24 restricts finance costs for individuals. It does not apply to companies at all, so a company computes profit the way every business did before 2017: rent, less running costs, less interest.

> IF YOU HAVE NO MORTGAGE THERE IS ALMOST NO ARGUMENT
>
> The interest deduction is the whole of the tax case. An unmortgaged landlord who incorporates is usually swapping one layer of tax for two.

2. The annual comparison

	Amount
Rent	£24,000
Running costs	£4,000
Mortgage interest	£15,000
Real profit, either route	£5,000
Personally, tax on the property	£3,946
In a company, corporation tax	£950
The company saves, a year	**£2,996**

The landlord has a £45,000 salary, so the rent falls in higher rate. The company pays 19 per cent on £5,000 while the individual is taxed on £20,000 and given a £3,000 reduction.

3. What it costs to move a property in

Selling it to your own company is still a sale.

	On a £300,000 property
Stamp duty, at the surcharge rate	£20,000
Capital gains tax on a £60,000 gain	£13,364
Total to move it	£33,364
Annual saving	£2,996
Years to break even	**About eleven**

The company buys at market value, so stamp duty is charged at the additional dwelling rate on the whole price, and you have a disposal at market value for capital gains. Neither is optional and neither waits.

> **THERE ARE RELIEFS, AND THEY ARE NARROW**
>
> Incorporation relief can defer the gain where a genuine business is transferred as a going concern, and partnership structures are sometimes used for the stamp duty. Both are fact specific, both are looked at closely, and neither is something to assume applies to you.

4. Getting money back out

Corporation tax is the first layer. It is not the last.

Profit left in the company has been taxed once. Take it out as a dividend and it is taxed again at 10.75, 35.75 or 39.35 per cent. A small salary to the personal allowance and dividends above it is the usual pattern, and it needs payroll and dividend paperwork to be real.

> **THE SAVING ONLY SURVIVES IF YOU LEAVE IT IN**
>
> Draw everything and the two layers together usually beat the one. The company suits a landlord building a portfolio out of retained rent, not one living on it.

5. Mortgages and rates

Company buy to let costs more to borrow.

- Rates are typically higher than personal buy to let, and arrangement fees are often larger.
- Fewer lenders, so less competition on price.
- A personal guarantee is usually required, so the limited liability is thinner than it looks.
- Moving the property means redeeming the existing mortgage, which may carry an early repayment charge.

A rate half a point higher on a £200,000 mortgage is £1,000 a year, which is a third of the saving in chapter two before anything else has happened.

The deduction is worth more when rates are high

That is the uncomfortable symmetry. The company case strengthens exactly when borrowing is expensive, which is also when the company mortgage premium costs most and when you can least afford the stamp duty to move. The moment the structure looks most attractive is rarely the moment it is easiest to adopt.

> **MODEL IT AT THE RATE YOU WILL ACTUALLY PAY**
>
> Not at your current personal rate. Comparing a company at tomorrow's company rate with yourself at today's personal one flatters the company by the whole of the premium.

6. What else a company brings

Cost	What it involves
Annual accounts	Filed at Companies House
Corporation tax return	Nine months and a day to pay
Confirmation statement	Every year
Payroll	If you take a salary
Higher accountancy fee	Every year, for all of the above
Public accounts	Abridged, but public

A DIRECTOR'S LOAN ACCOUNT YOU HAVE TO WATCH

Money you take that is not salary or a properly declared dividend is a loan. Leave it overdrawn nine months and a day after the year end and the company pays a tax charge on the balance.

7. When it genuinely works

- Buying new properties, so there is nothing to transfer and no stamp duty or capital gains cost.
- Heavily mortgaged, so the interest deduction is worth a lot each year.
- Higher or additional rate, so section 24 is actually costing you.
- Building rather than drawing, so the second layer of tax is deferred.
- Planning to pass the portfolio on, where shares are easier to give away than property.

Four of those five have to be true before the arithmetic works. One of them on its own rarely does.

8. The decision

It is a business structure decision that happens to have a tax answer, not the other way round.

Run your own figures rather than the ones here. Then divide what it costs to get there by what it saves each year, and ask whether you will still own the property that many years from now. If the answer is no, the arithmetic has already decided.

Three questions that settle most cases

— Are you buying, or moving something you already own? Buying inside a company costs nothing extra to set up. Moving costs stamp duty and capital gains before you start.

— Will you draw the profit or leave it? Drawing it puts a second layer of tax on top and usually cancels the saving.

— How long will you hold it? If the break-even is eleven years and you expect to sell in six, the arithmetic has already answered.

> TAKE ADVICE BEFORE YOU MOVE ANYTHING
>
> Incorporation relief, partnership structures and the stamp duty treatment are all fact specific and all scrutinised. This book is the shape of the decision, not a plan.

Where to go next

The Personal or Company Calculator runs chapters two and three on your own figures, including the years to break even. The SDLT Surcharge Calculator prices the move itself.

Every calculator and workbook mentioned in this book is free on zazentax.com, with no email form. They use the same figures and the same rates as the chapters here.

Zazen Tax

Accountants for landlords. If you would rather someone else did this, that is what we are for.

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