



Sussex Business Finance

MAKING BUSINESS FINANCE SIMPLE

Part of the Lime Consultancy family

Investment Property & Stamp Duty

From 1st April 2016 stamp duty on buy to let properties is increasing. It is banded according to the property value with the percentages being paid on the portion of the purchase price that falls within the bands, similar to how income tax is treated;

- Up to £125k - 3%
- £125k to £250k - 5%
- £250k to £925k - 8%
- £925k to £1.5m - 13%
- £1.5m and over 15%

Income Tax Relief & Treatment of Interest

These changes start from April 2017, so you have a little time to adjust, the main points are;

- As of 6th April 2017 interest charged on a buy to let mortgage can no longer be deducted from the rental income to reduce the profit on which tax is paid. In effect HMRC are changing how 'finance costs' are treated
- From 2020, you will not be able to offset any finance costs against the property income

The changes are being phased in up to 2020, the next few years will be treated as;

- 2017-2018; 75% of finance costs can be deducted from property income before your profit is used to calculate your tax liability
- 2018-2019; This falls to 50%
- 2019-2020; This falls to 25%
- 2020-2021; From this point onwards none of the interest can be used to offset against profit

Throughout this period the remaining percentage will be available to claim as a basic rate tax reduction from income tax liability.

You would be well advised to discuss your portfolio with your accountant at an early stage, definitely well before 2017. If you want us to help with getting the finance in the right place then I am happy to meet with you and your accountant so a joint approach can be taken.

The Limited Company Option

A Limited Company (Ltd), or a Limited Liability Partnership (LLP), may become a more tax efficient way of owning your investment properties. Your solicitor, accountant or tax advisor will be able to guide you with regard the most appropriate business structure for you.

There are always financial implications regarding your choice so please understand what these mean to you and your tax liability.

A Limited Company is an independent legal entity, it stands on it's own and is responsible for what it does, which includes any borrowing or investment property finance. Any profit, after taxes are paid, belongs to the company and not to you as an individual. The Limited Company can distribute these after-tax profits to shareholders as it sees fit.

How Company Tax is Worked

With property investment businesses the tax liability is driven by the income from ownership of a property portfolio, this means;

- Profits derived from property investments are subject to corporation tax rather than as an individual where income from property investments are subject to income tax
- From 6 April 2016, income/dividends received paid by a limited company are subject to a new dividend tax. This means that after a £5k allowance is applied the remaining dividend income is subject to basic, higher and additional tax rates
- The treatment of dividends is very different from how it has been in previous years

It is more important this year than before that you take advice over how to extract money from your company. If you want to know how to set a company up then contact Companies House.

Investment Property Finance Options

There remain plenty of good investment property finance options which we can guide you on, as an overview;

- Loans from £50k upwards
- Terms up to 30 years
- Capital repayment or interest only
- Can borrow in own name, LTD, LLP or SPV
- Buy to lets, HMO, mixed use, commercial and residential can all be financed
- As a guide rental needs to be 120% of loan costs, this can be the interest only cost

For any queries about financing investment property or moving your existing borrowing from personal name to company name then please get in touch on 01293 541333 or hello@sussexbusinessfinance.com

