



A GUIDE TO
buy-to-let

Introduction

Buy-to-let property investment in the UK can offer high potential returns, but it's crucial to understand the tax implications associated with this so you can ensure compliance with HMRC. In this guide, we'll cover the key tax considerations you need to know.

Why is investing in buy-to-let properties worth considering? We think this quote from our literary wordsmith and Senior Tax Consultant, Sean Gregory, sums it up quite nicely;

“There are many ways to make money in this world... but none quite so satisfactory as a passive income.”



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What is 'passive income'?

'Passive income' refers to the income one earns from something they are not actively involved with and is commonly used to describe income earned from rental properties.

Although we're sure many landlords would describe managing a rental property as being far from 'passive'!

Whether you're about to purchase a second property and become a landlord for the first time, or are expanding your existing property portfolio, we're here to help.

With more than 20 years of experience working with both small businesses and individuals, we are proud to

declare ourselves as experts in property Accountancy and Taxation.

It's common to have lots of questions as being a landlord can be a complex matter.

That's why we've put this brief guide together. We'll lay out the pros and cons of becoming a landlord, and discuss some of the possible ways of funding a buy-to-let-property.

Am I ready to become a landlord?

There are many reasons to become a landlord. From conversations we've had with our clients over the years, the most common reasons are:

- To make use of an inherited property
- As a source of additional income
- For investment purposes/capital appreciation
- To gain an income from the family property whilst working overseas



Whatever your reason may be, here are the things you need to consider first:

| Advantages | Disadvantages |
|---|---|
| <p>Steady Rental Income:</p> <ul style="list-style-type: none">• Buy-to-let properties provide consistent rental income, especially if you secure reliable tenants.• Rental yields can be attractive, especially in certain regions like the North of England. <p>Potential Capital Growth:</p> <ul style="list-style-type: none">• Property prices have historically appreciated over time, offering long-term capital gains.• Even if rental yields decrease, rising property values can protect your investment. <p>Tangible Asset:</p> <ul style="list-style-type: none">• Owning physical property provides sense of security and diversification in your investment portfolio. | <p>Higher Tax Bill:</p> <ul style="list-style-type: none">• Changes to tax regulations mean landlords pay more tax on rental income since April 2020. <p>Market Volatility and Property Risk:</p> <ul style="list-style-type: none">• Property prices can fluctuate, affecting your capital.• Property maintenance, void periods, and management responsibilities can be challenging. <p>Regulatory Changes:</p> <ul style="list-style-type: none">• Keep up with evolving regulations, such as the Renters Reform Bill, which impacts landlords and tenants. |

Remember, professional financial advice is crucial before making any investment decisions.

A hand holding a set of keys over another hand, with a 'SOLD' sign in the background.

How to purchase a buy-to-let property

There are two main ways to purchase a buy-to-let property, either through **personal ownership** or through a **limited company**.

Due to the many recent changes in legislation over the years which have arguably adversely affected landlords, many are considering incorporating as an option. This is in part to avoid the changes in how mortgage interest (often the largest expense a landlord has) and other finance charges are treated as expenses.

A company can still claim 100% relief on interest relating to the purchase of a property, whereas an individual can't. This may sound like a big enough reason to incorporate, but there are other aspects to consider.



Should i purchase through a limited company?

The first barrier you might face when deciding to incorporate is if you already own the property. You will effectively have to sell the property to your own limited company – which will give rise to a capital gain and stamp duty.

Generally, if you want to gain immediate access to any profit generated from your rental property, it is better to own the property personally. That way, you are only taxed on the profit you make at your relevant rate of tax.

A limited company will add an additional layer of tax on your profits. Firstly, your company will be taxed on its profits, via corporation tax. Then, you will be taxed on the drawings you make, typically in the form of dividends.

Another consideration is that when you come to sell the property, you as the personal owner, will have the benefit of a capital gains allowance to offset some of the taxable gain. This is doubled if you own the property with a partner. There is no such allowance if the company sells the property.

If, however, you want to leave the profits in your company to build up capital and purchase more properties, then the incorporation route may be the way to go.

Lastly, obtaining a mortgage as a company is sometimes a trickier proposition than as an individual. We can help with this process by referring you to our associated financial advisers, who are specialists in buy-to-let mortgages.

Responsibilities as a personal ownership landlord

If you take ownership personally, then it's your responsibility to keep accurate records of your income and expenses that relate to the buy-to-let property.

HMRC expect details of your income and expenses to be available to them on demand if they wish to see them. We can help you organise and keep track of your income and outgoings by providing the tools necessary to keep a clear record of how you arrived at your taxable rental income figure.

As with any income that has come about through self-employment, you are responsible for submitting details of this income to HMRC through your online self-assessment and for the payment of any tax liabilities.

Self-assessment tax returns need to be submitted and any tax liability paid in full by midnight on 31st January,

following the tax year-end. There are fines and penalties for late submission or payments and interest will be applied to any outstanding amount. This can soon start to add up so it's important to get everything done on time. Using a trusted tax advisor will help you meet all your compliance requirements.



Making Tax Digital (MTD)

If you own the property personally, you could be required to file quarterly submissions for Making Tax Digital in addition to filing an annual self assessment tax return.

From 6 April 2026 if you have self employed or property income of more than £50,000 you will need to follow the requirements for Making Tax Digital.

From April 2027, the threshold reduces to £30,000.

If you do meet the filing requirements for Making Tax Digital then we can help ensure you meet all the compliance obligations.

What to expect if you decide to incorporate

Purchasing a property through an incorporated company is sometimes referred to as a Special Purpose Vehicle or SPV.

The first thing to consider when looking at renting a property through a limited company is that the company will be a separate legal entity to yourself. This means that any profits, assets and liabilities all belong to the limited company rather than you as an individual.

How to fund a limited company

Below are some ways in which you can fund your company and, therefore, fund your property purchase:

Director's loan

You, as the owner/director, can lend the company money to fund the purchase. Any amounts introduced to the company are simply an unsecured loan and don't need to have any fixed terms for repayment or interest. Plus, the repayments of this loan are tax free. Sometimes it's tax-beneficial for a Director to charge interest on a loan to their company anyway and make use of their personal savings allowance.

Loan from family and friends

A loan from family or friends works in a similar way to that of a director's loan, but the repayment amounts would be due to the family member or friend rather than yourself as director.



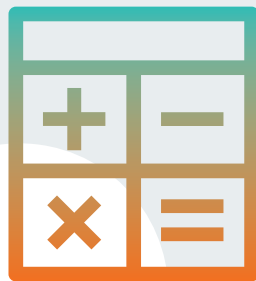
Mortgage

This is the most common way to fund your company. Your company will obtain a mortgage directly and any interest on the mortgage will qualify as a business expense in full.

Business to business loan

If you already have another trading limited company, then you could look at lending the funds from one of your companies directly to another. The key advantage of this is that you wouldn't pay income tax on the dividends you draw from your company in order to inject into the new company as a director's loan.

We strongly recommend that you speak to us before doing this so as to ensure you don't accidentally give yourself a personal tax bill.



Limited company director's responsibilities

As a director of a limited company, you must adhere to the rules set out by The Companies Act and tax legislation. These include legal and financial responsibilities, such as:

Annual accounts

These need to be submitted on an annual basis to Companies House. This is typically done within nine months of the year end date.

Confirmation Statement

The Confirmation Statement is submitted to Companies House on an annual basis. This provides them with up to date information on your limited company. This information includes details on directors, the shareholders, and the company's address.

ATED Returns

ATED Returns stands for Annual Tax on Enveloped Dwellings. This is an annual form that should be completed if your property has a value of £500,000. If your property is let on a commercial basis then there should not be any liability arising from this. If you can, it's important to ensure that your property is exempt, as tax liabilities can become significant.

If you're unsure if your property can be exempt, we are happy to provide guidance on this.



Let's talk about expenses

One of the questions we are asked most often is, "How can I minimise my tax liability?"

To ensure that the tax liability on your rental profit is as small as possible, it's vital that you keep accurate records of the expenses your rental property has incurred.

The rules are complex surrounding what can and can't be claimed for as expenses for residential properties and furnished holiday lets. However, we've summarised it for you here:

In general, allowable expenses are things you to spend money on as part of the day-to-day running of the property.

This includes:


- Letting agents' fees
- Legal fees for lets of a year or less, or for renewing a lease for less than 50 years
- Accountants' fees
- Buildings and contents insurance
- Interest on property loans
- Maintenance and repairs to the property but not improvements
- Utility bills
- Rent, ground rent, service charges
- Council Tax
- Services you pay for
- Other direct costs of letting the property
- Replacement cost of furnishing, though not the initial purchase.



TAKE THE TEST:

Is buying through a limited company right for you?

We've put together a simple test to determine if purchasing a buy to let property through a limited company is the right option for you:



If you answer yes, to all five questions, becoming incorporated is something you should consider:

- 1** Are you looking for a long-term investment?
- 2** Are you a higher rate taxpayer or looking at funding via your company?
- 3** Can you confirm you will never live in the property?
- 4** Can you confirm you will not let to a family member?
- 5** Are you happy to keep the funds in the company if more tax efficient?

Thanks for reading. Need more help?

We hope that our guide has been helpful. Getting buy-to-let right can be difficult, but with careful planning, it can be extremely rewarding.


Our team are here to assist you with all your buy-to-let accounting and tax advice needs. If you need further advice, give us a call on 01202 877750 or send us a message through our website to see how we can help you.








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