

INCREASE YOUR AFTER-TAX INCOME



USING A PROPERTY COMPANY TO SAVE TAX



Taxcafe.co.uk Tax Guides

Using a Property Company to Save Tax

By Carl Bayley BSc FCA

Important Legal Notices:

Taxcafe®
TAX GUIDE - 'Using a Property Company to Save Tax'

Published by:

Taxcafe UK Limited
67 Milton Road
Kirkcaldy
KY1 1TL

Email address: team@taxcafe.co.uk

Eighteenth Edition, June 2025

ISBN 978-1-917392-05-1

Copyright

Copyright © Carl Bayley 2003-2025. All rights reserved.

No part of this publication may be reproduced or transmitted in any form or by any means (electronically or mechanically, including photocopying, recording or storing it in any medium by electronic means) without the prior permission in writing of the publisher except in accordance with the provisions of the Copyright, Designs and Patents Act 1988 or under the terms of a licence issued by the Copyright Licensing Agency Ltd, Saffron House, 6-10 Kirby Street, London EC1N 8TS.

Warning: Any unauthorised reproduction or transmission of any part of this Tax Guide may result in criminal prosecution and a civil claim for damages.

Trademarks

Taxcafe® is a registered trademark of Taxcafe UK Limited. All other trademarks, names and logos in this Tax Guide may be trademarks of their respective owners.

Disclaimer

Before reading or relying on the content of this Tax Guide please read the disclaimer.

About the Author

Carl Bayley is the author of over twenty 'Plain English' tax guides designed specifically for the layperson and the non-specialist. His aim is to help landlords, other business owners, and families understand the taxes they face and make savings through sensible planning and by having the confidence to know what they can claim. Carl's speciality is his ability to take the weird, complex world of taxation and set it out in the kind of clear, straightforward language taxpayers can understand. As he often says, "My job is to translate 'tax' into English."

Carl enjoys his role as a tax author, as he explains, "Writing these guides gives me the opportunity to use the skills and knowledge learned over more than forty years in the tax profession for the benefit of a wider audience. The most satisfying part of my success as an author is the chance to give the average person the same standard of information as the 'big guys' at a price everyone can afford."

He takes the same approach when speaking on taxation, a role he frequently undertakes with great enthusiasm, including his highly acclaimed annual 'Budget Breakfast' for the Institute of Chartered Accountants. In addition to being a recognised author and speaker, Carl has spoken on taxation on radio and television, including the BBC's 'It's Your Money' programme and BBC Radio 2's Jeremy Vine Show.

Beginning his career as a Chartered Accountant in 1983 with one of the 'Big 4' accountancy firms, Carl qualified as a double prize-winner then began specialising in taxation. He worked for several major international firms until beginning the new millennium by launching his own practice, through which he provided advice on a wide variety of taxation issues; especially property taxation, inheritance tax, and tax planning for small and medium-sized businesses, for twenty years, before deciding to focus exclusively on his favourite role as author and presenter.

Carl is a former Chairman of the Tax Faculty of the Institute of Chartered Accountants in England and Wales, and was a member of the institute's governing Council between 2003 and 2023. He is also a former President of ICAEW Scotland and member of the ICAEW Board. He co-organised the annual Practical Tax Conference from 2002 to 2019.

Aside from his tax books, Carl is an avid creative writer. His first novel, *Trinity of Souls*, was published in 2024, with his second, *Destiny of Souls*, following in March 2025. When he isn't working, he takes on the equally taxing challenges of hill walking and horse riding: his Munro tally is now 106 and, while he remains a novice rider, his progress is cantering along nicely. Carl lives in the Scottish Borders, where he enjoys spending time with his partner, Linda.

Contents

Introduction	1
Scope of this Guide	4
Chapter 1 Why Use a Property Company?	8
1.1 Isn't It Obvious?	8
1.2 Non-Tax Factors	9
1.3 What Taxes do Companies Pay?	11
1.4 What Taxes do Company Owners Pay?	13
1.5 Does it Matter What Type of Property Business Your Company Has?	14
1.6 Overview of Company Tax Pros and Cons	16
Chapter 2 How to Save Corporation Tax	18
2.1 Introduction to Corporation Tax	18
2.2 Corporation Tax Rates	19
2.3 Paying Corporation Tax	23
2.4 Cashflow Benefits of Using a Company	23
2.5 Company Tax Returns	25
2.6 Company Accounts and Tax	25
2.7 Corporation Tax Computations	28
2.8 Types of Business for Corporation Tax Purposes	30
2.9 Corporation Tax Deductions	32
2.10 Director's Expenses	33
2.11 Wages, Salaries, and Other Staff Costs	35
2.12 Training and Research	36
2.13 Use of Home and Other Premises Costs	38
2.14 Motor Expenses	42
2.15 Travel and Subsistence	45
2.16 Bad Debt Relief	45
Chapter 3 Saving Tax on Capital Expenditure	48
3.1 The Importance of Capital Expenditure	48
3.2 What is Capital Expenditure?	48
3.3 Accounting for Capital Expenditure	49
3.4 Claiming Relief for Capital Expenditure	52
3.5 Residential Property Letting and Capital Allowances	55
3.6 Plant and Machinery Allowances	56

3.7 Full Expensing	59
3.8 The 50% First Year Allowance	61
3.9 Enhanced Capital Allowances	61
3.10 Fixtures, Fittings, and Other Assets Within Property	62
3.11 Company Cars	66
3.12 Asset Disposals and Balancing Charges	68
3.13 Property Sales	70
3.14 Planning with Capital Allowances	71
3.15 Choosing the Best Allowances	72
3.16 Allocating the Annual Investment Allowance	73
3.17 Getting Extra Annual Investment Allowance	76
3.18 Cashing in Your Pools (or Someone Else's)	77
3.19 Capital Allowance Disclaimers	78
3.20 Further Points on Capital Allowances	79
3.21 The Structures and Buildings Allowance	80
3.22 The Capital Expenditure Hierarchy	86
Chapter 4 Saving Tax in a Property Investment Business	89
4.1 Corporation Tax on Rental Profits	89
4.2 Calculating Rent Receivable	90
4.3 Expenses Your Company Can Claim	90
4.4 Legal and Professional Fees	91
4.5 Repairs and Maintenance	94
4.6 Replacing Furniture, Furnishings & Equipment	103
4.7 Furnished Holiday Lets	104
4.8 Interest and Finance Costs	106
4.9 Tax Treatment of Rental Losses	110
4.10 Other Property Investment Income	112
4.11 Lease Premiums	113
Chapter 5 Saving Tax in a Property Trading Business	114
5.1 How Property Trading Profits are Taxed	114
5.2 Trading Profits versus Rental Profits	115
5.3 Properties as Trading Stock	116
5.4 Work-In-Progress & Sales Contracts	120
5.5 Failed Sales	122
5.6 Trading Losses	122

Chapter 6 Corporation Tax on Capital Gains	125
6.1 When Does a Capital Gain Arise?	125
6.2 How to Calculate the Proceeds	126
6.3 How to Calculate the Base Cost	128
6.4 How and When to Calculate Indexation Relief	130
6.5 Rollover Relief	132
6.6 Part Disposals	133
6.7 Lease Premiums	134
6.8 Making the Most of Capital Losses	137
6.9 Getting Relief for Moveable Items	137
6.10 Case Study	138
 Chapter 7 Capital Gains Tax on Company Shares	 140
7.1 Introduction	140
7.2 Capital Gains Tax Rates	140
7.3 Business Asset Disposal Relief (BADR)	141
7.4 Business Asset Disposal Relief and Couples	145
7.5 Holdover Relief	145
7.6 Winding Up the Company	146
7.7 The Spouse Exemption	148
 Chapter 8 Stamp Duty for Property Companies	 150
8.1 Introduction	150
8.2 Stamp Duty on Shares	150
8.3 Stamp Duty Land Tax and Companies	150
8.4 Stamp Duty Land Tax on Residential Property	151
8.5 The Non-Resident Surcharge	152
8.6 Residential Property Purchases for Non-Business Purposes	153
8.7 Stamp Duty Land Tax on Non-Residential Property	154
8.8 Multiple Purchases	155
8.9 Fixtures, Fittings and Moveable Items	156
8.10 Stamp Duty Land Tax on Leases	157
8.11 Property in Scotland	158
8.12 Property in Wales	160
 Chapter 9 VAT for Property Companies	 162
9.1 VAT on Property	162
9.2 VAT Principles	162
9.3 Residential Property Letting	163
9.4 Holiday Accommodation	163

9.5 Commercial Property Letting	164
9.6 Residential Property Sales	165
9.7 Commercial Property Sales & Purchases	166
9.8 VAT on Build to Let	167
9.9 Conversions, Renovations, and Additions	167
9.10 Energy Saving Materials	168
9.11 Reverse Charges in the Construction Sector	168
9.12 VAT for Property Management Companies	169
9.13 The Flat Rate Scheme	169
9.14 Interaction with Corporation Tax	170
Chapter 10 Saving Tax When You Extract Profits	171
10.1 Profit Extraction Principles	171
10.2 Income Tax for Property Company Owners	172
10.3 Salaries, etc	174
10.4 Salaries for Family Members	176
10.5 The Employment Allowance	177
10.6 Dividends	178
10.7 The Personal Savings Allowance	180
10.8 Maximum Tax-Free Salaries	181
10.9 Optimum Profit Extraction	183
10.10 Beneficial Profit Extraction	186
10.11 Directors Over State Pension Age	188
10.12 Salaries Over £50,270 from Outside the Company	188
10.13 Pension Contributions	189
10.14 Securing State Pension Entitlement	189
Chapter 11 Financing the Company and Interest Relief	191
11.1 Introduction	191
11.2 Who Should Borrow the Funds?	192
11.3 Borrowing to Invest in Shares	193
11.4 Borrowing to Lend to the Company	194
11.5 Corporate Borrowings	195
11.6 Loss-Making Companies	196
11.7 Deeds of Trust	197
11.8 Rolling Up Interest In A Company	197
11.9 Personal Interest Relief	200
11.10 Profit Extraction Benefits	201
11.11 Limitations on Income Tax Relief	204

Chapter 12 How to Set Up a Property Company	206
12.1 Who Can Help and How Much Does it Cost?	206
12.2 The Company's Constitution	206
12.3 Other Company Formation Formalities	207
12.4 Your Company's Accounting Date	208
12.5 Dealing with Companies House	208
12.6 Statutory Accounts	209
12.7 Pre-Trading Expenditure	210
 Chapter 13 How to Put Existing Property into a Company	 212
13.1 Introduction	212
13.2 What is a Connected Company?	212
13.3 Stamp Duty Land Tax on Transfers	213
13.4 Multiple Transfers	214
13.5 Transferring Other Assets	216
13.6 Partnership Transfers	217
13.7 Capital Gains Tax on Transfers	220
13.8 Gifts of Business Assets	221
13.9 Incorporation Relief	223
13.10 Which Relief is Best?	225
13.11 Pay Now, Save Later	227
13.12 Trading Businesses	229
13.13 Turning Investment Property into Trading Property	230
13.14 Property Investment Businesses & Incorporation Relief	232
13.15 The Benefits of Incorporation Relief	236
13.16 Other Investment Properties	238
13.17 Forming a Partnership	239
13.18 Capital Allowances and Business Transfers	244
13.19 VAT and Business Transfers	246
13.20 Alternative Strategies	247
 Chapter 14 Other Important Tax Issues	 249
14.1 Marginal Rate Planning	249
14.2 Close Companies & Close Investment Holding Companies	252
14.3 The Dangers of Private Use	252
14.4 Short and Long Accounting Periods	253

14.5 Non-Resident Investors	255
14.6 The Annual Tax on Enveloped Dwellings	258
14.7 The Child Benefit Charge	259
14.8 Scottish Taxpayers	260
Chapter 15 Specialised Property Companies	263
15.1 Property Management Companies	263
15.2 Sub-Letting Companies	264
Chapter 16 Does Using a Property Company Save Tax?	266
16.1 It's Complicated!	266
16.2 Rental Income	266
16.3 Interest Relief for Residential Lettings	267
16.4 Trading Profits	268
16.5 Profit Extraction	268
16.6 Middle Ground	270
16.7 Reinvestment Benefits	271
16.8 Capital Gains	273
16.9 The End Game	274
16.10 Selling the Company	274
16.11 Winding the Company Up	275
16.12 Burned by the Phoenix	276
16.13 Passing the Company On	277
16.14 In Conclusion	278
Appendix A – UK Tax Rates and Allowances 2023/24 to 2025/26	279
Appendix B – Connected Persons	280
Appendix C – Indexation Relief Rates	281
Appendix D – Abbreviations Used in this Guide	283

Introduction

Welcome to this eighteenth edition of *Using a Property Company to Save Tax*, fully updated for all the latest changes in both property and company taxation, and substantially revised to give readers a more thorough understanding of all the taxation benefits, pitfalls, and practical issues involved in running a property business through a company.

When I wrote the first edition of this guide in 2003, relatively few people invested in property through a company. It wasn't so much that using a property company was an entirely new idea, more that many investors, and perhaps more importantly, many lenders, were wary of it. This was why earlier editions of this guide placed a great deal of emphasis on the process of deciding whether a property company was a good idea or not (the answer was, and still is, 'maybe', as we shall see later).

In the twenty-odd years since that first edition, many people have embraced the idea of using a company to invest in property and it has become considerably more commonplace. Indeed, recent statistics suggest more than half of all new entrants into the private rented sector are now investing via a company.

No doubt, we at Taxcafe have played our part in these changes but, in view of the fact many property businesses are now well established as companies, we decided a couple of years ago to revamp this guide to make it more relevant not just to those who are trying to decide whether to use a property company, but also to those who have already made that decision and are now operating as a company, or indeed have been for many years.

We will start in Chapter 1 by taking a brief look at the rationale behind using a property company and the tax and non-tax issues to be considered. We will also begin to explore what taxes are paid by property companies and their owners, and how these differ from the taxes paid by those investing in property as individuals.

As we will begin to see in this opening chapter, the company owner's personal tax position is as important as the company's, and understanding the way these two tax regimes combine is a key part of getting the best out of your property company.

In Chapter 2, we will then start to look at the main tax paid by companies, Corporation Tax, how it works, the rates applying, and its scope. We will begin to see how the tax is affected by the type of business you are running through the company. The chapter closes with a look at some of the tax deductions available to any type of company, and how to make the most of them.

Chapter 3 covers one of the most important areas for property companies, capital expenditure. We will see how the treatment of expenditure in your company's accounts relates to how it is treated for Corporation Tax purposes and explore the maze of different allowances and reliefs capital expenditure may attract.

In Chapter 4, we focus on property investment companies. While many important principles will already have been covered in earlier chapters, there are many quirks to be aware of when your company is running a property letting business.

Chapter 5 does the same for property trading companies, including companies engaged in property development, property dealing, and property management. We will see how the treatment of expenses and, in particular, property purchases and sales differs from property investment companies.

Chapter 6 looks at capital gains arising in the company and how to minimise the tax burden arising. This chapter includes a detailed case study to explain how it all works, including how capital gains and capital allowances interact on a property sale.

In Chapter 7 we look at the equally important issue of Capital Gains Tax on the company shares, including some tips on how to keep it to a minimum when selling the company, winding it up, or transferring shares to a family member.

Chapters 8 and 9 cover two other important taxes for property companies, Stamp Duty Land Tax (and its equivalents in Scotland and Wales), and VAT.

A property company does not exist in isolation, of course, and in Chapter 10, we look at the crucial issue of how a property company owner can extract funds from their company tax efficiently... and even when taking money out of the company actually saves tax!

Chapter 11 explores the different methods of financing a property company and compares their relative merits, as well as looking at some tax saving ideas, including one structure that can potentially turn a loss before tax into a profit after tax: effectively getting the Government to fund your property business.

In Chapter 12 we look at some of the formalities involved in setting up and running a property company, including how the company can get tax relief for expenditure incurred before it was even formed.

Considerably larger numbers are involved in Chapter 13 when we look at how to transfer an existing property business into a company. This can be a costly exercise, although it often pays off in the long run; but there are

also ways to cut the costs involved and even to create significant long-term tax savings in the process.

Chapter 14 picks up on some other important tax issues, including key issues for non-UK residents, Scottish taxpayers, and company owners with young children. Chapter 15 then covers some specialised property companies.

We close in Chapter 16 by returning to the question of whether, and when, a property company will save you tax. In more recent editions of *Using a Property Company to Save Tax*, I've approached the issue in a fresh and easier to follow style. But the conclusions remain the same: a property company can provide substantial tax savings and significantly better after-tax returns on your investments, but you have to know how to make the most of the potential benefits available.

Tips and Warnings

Sprinkled throughout this guide, you will find many '**Tax Tips**' and '**Wealth Warnings**' designed to highlight key points where there are extra savings to be made or traps to catch the unwary. There are also a few '**Practical Pointers**' designed to make life easier. Watch out for all of these as you read the guide.

Finally

Whether you are considering using a property company in future, have only just started, or have been operating one for many years, my aim in this guide is the same: to help you save as much tax as possible through sensible planning measures, understanding your rights and obligations, and a better appreciation of what you and the company are able to claim.

Finally, I would like to thank you for buying this guide and wish you every success with your property business.

Why Use a Property Company?

1.1 ISN'T IT OBVIOUS?

At first glance, the benefit of running a property business through a company seems obvious. Whereas individual landlords pay Income Tax at rates of up to 45%, and owners of property-based trading businesses pay combined rates of Income Tax and National Insurance (NI) of up to 47%, the maximum rate of Corporation Tax (CT) paid by a company is just 25%.

Add to this the fact that companies generally get full tax relief for their interest and finance costs, whereas individual residential landlords get only restricted relief at the basic rate of Income Tax, and the idea of using a company starts to look like a 'no-brainer'.

But this is just the beginning of a far more complex story, involving many other factors which we will examine throughout the course of this guide. While the initial tax saving on annual rental or trading profits is an important issue, it is only one of many.

A company can be set up at a relatively modest cost but it brings significantly higher annual running costs in terms of accountancy fees and other formalities. And transferring an existing property business into a company can be extremely costly, although it often brings substantial long-term benefits too.

Another thing about companies is they are far easier to get into than to get out of. It reminds me of how my grandmother once lamented that little boys have a habit of getting into things without any idea how they are going to get out of them. As I recall, she was talking about climbing trees at the time, but the principle applies equally well to forming companies: you don't necessarily need a fully thought out exit plan, but you should at least have some idea of where your company will ultimately be headed.

Long before then, most company owners will want to extract some of their company's profits for personal use. This generally brings additional tax costs and it is an absolutely crucial area to consider when deciding whether to use a company, and in operating it as tax efficiently as possible once you've set it up.

As if all this wasn't enough, there are other taxes to consider too, including Capital Gains Tax (CGT), Stamp Duty Land Tax (SDLT), VAT, and the Annual Tax on Enveloped Dwellings (ATED).

All in all, using a property company poses a great many challenges. But fear not: help is not just *at hand*, it's already *in your hands*. In this guide, we will examine all the factors described above, as well as many others, either to help you decide whether you want to use a property company, or to help you realise the best tax-saving potential out of a property company you already have.

1.2 NON-TAX FACTORS

Before we go on to examine the tax implications of using a company for a property business, it is first worth having a brief look at some of the non-tax factors involved.

Limited Liability Protection

A company is a separate legal entity and, as such, is responsible for its own debts and other liabilities. The usefulness of this, however, is often limited. Banks will often insist on personal guarantees from the directors or shareholders before they will lend money to the company. Furthermore, modern insolvency law passes a large part of the company's financial responsibilities to its directors, who may find themselves personally liable where the company has been used in an attempt to avoid the payment of liabilities arising in the normal course of its business.

Nevertheless, limited liability can be useful when the business faces unexpected losses or legal liabilities. This can be particularly important when the economy takes a turn for the worse!

Limited liability status can also be obtained by using an LLP. For property investors, however, LLPs suffer the major drawback that interest relief is not available for funds invested in an LLP engaged in property investment.

Flexibility of Ownership

Without the use of a company, it is difficult to involve many other people in the ownership of your property business. Joint ownership with your spouse or partner is easy enough to achieve but as the business grows you may wish to involve adult children or key employees. It is far easier to spread small parcels of ownership of the business through the medium of company shares.

Separation of Ownership & Management/Succession Planning

A company structure will also enable you to separate ownership and management. As your business grows and the years go by, you may eventually wish either to retire or move on to other ventures. However, you may still have a highly profitable business you do not yet wish to sell.

Using a company will enable you to retain ownership (as a shareholder) while passing management responsibility to others (the directors). A company structure also enables this business succession process to take place at a more controlled pace.

Tax Tip

A company is often a good vehicle for passing wealth to children (or other intended beneficiaries). The problem with a property investment or letting business is it does not qualify for business property relief for Inheritance Tax (IHT) purposes. Hence, on the owner's death, the whole portfolio is exposed to IHT.

What a company can provide is a means to effectively allow the owner to pass ownership to their beneficiaries over a number of years. A sophisticated share structure may also enable you to keep control of your company while passing on a significant proportion of the underlying value to your children. For further details of how companies can be used to pass wealth to your beneficiaries tax efficiently, including a chapter on the benefits of family investment companies for property investors, see the Taxcafe guide *How to Save Inheritance Tax*.

State Pension Entitlement

Many landlords with no other source of income struggle to get the necessary credits to give them full state pension entitlement. Using a company can resolve this problem as it is possible to pay yourself a salary. We'll take a closer look at this opportunity in Section 10.14.

Finance

Many investors wishing to hold properties through the medium of a company find it difficult or more expensive to obtain the finance they require. This problem seems to most affect those who are just starting their property business, or have only one or two investment properties. Conversely, for larger portfolios, corporate status seems to become a positive factor in the eyes of many lenders.

Some advisers suggest a 'Deed of Trust' could be used to get around the difficulties of raising finance for a property company. We will look at how this type of arrangement might work in Section 11.7.

Legal Rights

If you run your business through a company, you personally will no longer own property. Instead, you will own company shares.

Legally, these are an entirely different kind of asset, giving rise to different legal rights. What kind of difference this will make to your affairs will depend on your personal circumstances, as well as what part of the UK (or other country) you and your properties are located in.

As I am not a lawyer, I will not attempt to advise property investors on these issues. The advice I **will** give is that you should get legal advice on the implications of owning your properties through a company.

Company Law

If you use a UK-registered company, you will be subject to the requirements of UK company law. This, for example, may restrict your ability to utilise funds from your business for private purposes. (Although borrowing from your own company is far easier and more flexible than it used to be.)

Audit and Other Statutory Requirements

Larger companies require a statutory annual audit of their accounts. Even the smallest companies must file annual accounts and certain other documentation with Companies House. We will take a closer look at these requirements in Chapter 12.

Costs

Inevitably, the additional statutory requirements involved in running a company will lead to increases in accountancy and other professional costs. These additional costs must be weighed against the tax and other benefits the company brings.

1.3 WHAT TAXES DO COMPANIES PAY?

Corporation Tax (CT)

The main tax paid by companies is CT. A UK resident company pays CT on its total profits, made up of its worldwide income, profits and capital gains. The CT position for non-UK resident companies is covered in Section 14.5.

We will look at how CT works in Chapter 2, and take a detailed look at its application to property companies in Chapters 3 to 6.

Stamp Duty Land Tax (SDLT)

Companies are subject to SDLT (and its equivalents in Scotland and Wales) on purchases and other acquisitions of property. We will cover these taxes in detail in Chapter 8.

VAT

Broadly speaking, a company is liable for VAT in the same way as any other business entity. We will examine VAT for property companies in Chapter 9.

The Annual Tax on Enveloped Dwellings (ATED)

ATED applies to companies owning UK residential properties worth in excess of £500,000, which are not in 'business use'. We will look at this charge in more detail in Section 14.6.

Residential Property Developers Tax

This new tax applies from 1st April 2022 and is charged on annual profits in excess of £25m derived from developing residential property in the UK. The tax is charged at a rate of 4% and effectively operates as a CT surcharge. As it only applies to large property development companies or groups, we will ignore it for the rest of this guide.

National Insurance (NI) and Compulsory Pensions

If your company employs anyone to help you in its property business, it will be liable for employer's secondary Class 1 NI, at the rate of 15% (13.8% prior to 6th April 2025): subject to the employment allowance (currently £10,500) and other exemptions covered in Section 10.3.

The company is also liable for Class 1A NI on any benefits in kind provided to employees and Class 1B NI on any voluntary settlements negotiated with HMRC (e.g. on the cost of sandwiches provided at lunchtime business meetings).

Furthermore, like any other employer, the company has to deduct primary Class 1 NI from its employees' pay and account for this through the PAYE system.

All of this is exactly the same as when you employ someone to help you in a sole trader or partnership business. The key difference, however, comes from the fact that NI will also be due if you pay yourself a salary out of the company's profits, or provide yourself with any benefits in kind (such as a company car). We will look further at the implications of this in Section 10.3.

Most employers now also have to make compulsory pension contributions on behalf of their employees under yet another Government-enforced business burden, auto-enrolment.

For more information on the tax consequences of employing people in your company, providing benefits in kind, and compulsory pensions, see the Taxcafe guide *Putting it Through the Company*.

Business Rates

Companies are liable for Business Rates on commercial property they occupy for use in their business in the same way as any other business entity.

Council Tax

Companies owning vacant residential property may become liable for Council Tax in the same way as other landlords.

Other Taxes Paid by Companies

The taxes listed above are the main taxes encountered by property companies. This is by no means an exhaustive list, however, and companies may be liable for other taxes in the same way as individuals or other business entities. Vehicle Excise Duty, Landfill Tax, Air Passenger Duty, and Insurance Premium Tax are just a few that spring to mind... there are many others.

Taxes Not Generally Suffered by Companies

Some major taxes are not generally suffered by companies, including:

Income Tax: As explained above, companies pay CT on their income rather than Income Tax. Occasionally, a company may suffer a deduction of Income Tax at source on part of its income, but this can be deducted from its CT liability for the same period. Companies do have to deduct Income Tax from salaries paid to employees and account for it to HMRC under the PAYE system, but they are only acting as the Government's unpaid tax collector rather than suffering the tax themselves. The same principles apply to any deductions under the Construction Industry Scheme (CIS) that the company is required to withhold from payments to sub-contractors.

National Insurance: Except as discussed above, companies do not pay any other class of NI. In particular, companies do not suffer Class 4 NI on trading profits.

Capital Gains Tax: Capital gains made by companies form part of their profits subject to CT. Companies no longer pay CGT under any circumstances.

Inheritance Tax: Companies are only liable for IHT in the most exceptional of circumstances and, even then, the tax only arises as a result of external factors involving the company's shareholders. A company does not die, so IHT does not arise. Instead, companies are wound up and we will come to the implications of this later in the guide.

1.4 WHAT TAXES DO COMPANY OWNERS PAY?

When it comes to looking at the tax implications of using a property company, it is equally important to consider the taxes paid by the company owner.

A company may be owned by many different entities, including one or more other companies or a trust. However, for the purposes of this guide,

we will focus on companies owned by individuals, as most small companies are.

An individual company owner is subject to all the same taxes as any other individual. However, what we are concerned with in this guide is the taxes that arise through their ownership and management of their property company.

Income Tax

In Chapters 10 and 11 we will look at how company owners can extract funds from their company tax efficiently. The possible methods available include salaries, dividends, rent and interest. Subject to the available allowances and reliefs, all of these attract Income Tax and we will explore this subject in detail.

National Insurance (NI)

Subject to the available exemptions and allowances, paying yourself a salary from your company may attract primary Class 1 NI at up to 8%. This again is covered in Chapter 10.

Capital Gains Tax (CGT)

A sale or transfer of your company shares will attract CGT. We will look at this issue in detail in Chapter 7. CGT may also arise when you wind up your company, and we will look at this in Chapter 16.

Stamp Duty

A purchase of company shares is subject to Stamp Duty at 0.5%. However, Stamp Duty does not apply to an issue of new shares. We will take a brief look at Stamp Duty in Section 8.2.

Inheritance Tax (IHT)

The value of your property company shares forms part of your estate for IHT purposes. We will touch on this briefly in a few parts of this guide but for a thorough analysis see the Taxcafe guide *How to Save Inheritance Tax*.

1.5 DOES IT MATTER WHAT TYPE OF PROPERTY BUSINESS YOUR COMPANY HAS?

A property company might only carry out property letting (sometimes called property investment); might only carry out a property trade, such as property development, property dealing, or property management; or might carry out a mix of these activities.

While these different types of property business are taxed slightly differently, it does not usually make a significant difference to how the company is taxed. For example, a property investment company pays CT on its rental income and on any capital gains it makes when it sells its

investment properties. A property development company pays CT on the profit it makes when it sells its development properties.

But both companies pay the same tax at the same rates on all their taxable income, so the different types of property business a company might carry on generally make very little difference to its overall tax position.

For individual property investors the type of business involved has a significant impact on their overall tax liability, including issues such as whether CGT or Income Tax is due on a property sale, and whether NI is due on their profits. The Taxcafe guide *How to Save Property Tax* has a chapter devoted to determining whether property businesses should be treated as a trading activity or an investment activity.

Since the issue is far less significant for companies, that chapter is not repeated in this guide, although we will have a brief look at the different types of property business a company might carry on in Section 2.8.

Nonetheless, the question of whether a company is classed as a trading company or a property investment company is important for the purposes of the company owner's tax position, as it can affect their CGT liabilities on a sale or winding up; their IHT position on death; and both the CGT and IHT consequences of a lifetime transfer of their shares.

We will examine how a company's status is determined for CGT purposes in Section 7.3. The IHT treatment of property company shares is briefly reviewed in Section 16.13, and is covered in detail in the Taxcafe guide *How to Save Inheritance Tax*.

Furnished Holiday Lets

A special tax regime applied to qualifying furnished holiday lets until April 2025. This regime was highly beneficial for the purposes of both the CT treatment of furnished holiday letting businesses carried on by companies, and the CGT position of the owners of such companies.

For CT purposes, the special regime was abolished on 1st April 2025. The regime still applies to any part of a company accounting period falling before that date. From 1st April 2025 onwards, furnished holiday lets held by companies are treated the same as other residential rental property for CT purposes.

For CGT (and Income Tax) purposes, the special regime was abolished on 6th April 2025. Transitional rules may still affect owners of companies that carried on a furnished holiday letting business which ceased before 1st April 2025. Otherwise, furnished holiday lets are now treated the same as other rental property held by companies for the purposes of CGT on company shares.

The furnished holiday let tax regime remains relevant to some issues within the scope of this guide, so it will continue to crop up a few times within this edition. Nonetheless, for most of the guide, we will focus on the current position applying after 31st March 2025: namely where furnished holiday lets are treated the same as other residential rental properties owned through a company.

For a more detailed examination of the consequences of the special tax regime's abolition, see the Taxcafe guide *Furnished Holiday Lets: Big Tax Changes Ahead*.

1.6 OVERVIEW OF COMPANY TAX PROS AND CONS

To conclude this opening chapter, let's take a brief look at the main tax pros and cons of running a property business through a company.

Using a Company: The Pros

- Companies pay CT at a maximum rate of just 25% on any level of annual profits
- Companies are not subject to the horrendous restrictions on relief for interest and finance costs that apply to individual landlords renting out residential property
- A company may generally claim relief for interest and finance costs on rental properties against any income or capital gains arising in the same period or, in many cases, against income or capital gains of future periods
- A company may generally also claim relief for other losses arising from a UK property letting business against other income or capital gains it has for the same period or, in most cases, a later one
- An investor may claim relief for interest on funds borrowed to invest in a property company against any other income, including salary, self-employment income, pensions, or personal rental income. The relief is not restricted, even if the company is investing in residential lettings, although it is subject to other limitations: see Section 11.11
- Companies can get tax relief for pension contributions made on behalf of directors, regardless of the type of business carried on by the company (subject to the points discussed in Section 10.13)
- Companies are eligible for the additional allowances covered in Sections 3.7 and 3.8, which are not available to individuals or partnerships
- Only companies are eligible to claim land remediation relief
- You may choose any year-end accounting date for your company and it will apply for CT purposes
- Companies may not be subject to Making Tax Digital, including its quarterly reporting obligations, for many years, possibly never

Using a Company: The Cons

- Companies do not get a personal allowance
- Companies do not get an annual exemption for capital gains purposes
- Companies are not eligible for business asset disposal relief (see Section 7.3)
- Any personal use, by the investor or their close relatives, of properties owned by the company, may have severe tax consequences
- Personal tax liabilities usually arise when extracting trading or rental profits, or property sale proceeds, from the company
- It may be more difficult to obtain tax relief for certain administrative expenses, such as 'use of home as office', when investing via a company
- Companies cannot have a private residence, and hence are unable to claim private residence relief or rent-a-room relief
- Companies cannot calculate taxable profits on a cash basis

In addition to the above points, companies may end up suffering CT at effective marginal rates of 25% or 26.5% on capital gains: greater than the maximum CGT rate of 24% applying to individuals.

As we can see, property companies carry many pros and cons, making the question of whether the company is beneficial overall an extremely complex issue. That is why the rest of this guide serves two purposes:

- To help you decide whether to use a property company, and
- To help you make the most of your property company if you already have one, or if you decide to use one in future

If you have enjoyed reading the first few
pages of this publication, please

CLICK HERE

to add the **PRINTED BOOK** to your shopping cart at

£29.99

(+ £2.99 POSTAGE)

You will also receive a FREE PDF copy so you
can read the entire book just seconds after
placing your order!

If you prefer to buy just the eBook version, please

CLICK HERE

to add the **EBOOK** (PDF format) to your shopping cart at

£24.99