

***Welcome to our monthly newsletter for property landlords. We hope you find this informative and please contact us to discuss any matters further.***

## **Holding property in a limited company**

More and more buy-to-let landlords are holding mortgages within limited company structures. Before deciding on the most appropriate structure for your property business, it's important to consider the pros and cons of corporate ownership.

### **Advantages:**

- The property would be owned by the limited company, which is a separate legal entity. The owner's personal assets would be protected against business debts or legal claim
- It may be more tax efficient. Rental income received by an individual is added to their other income and taxed at their marginal income tax rate (which for higher earners is 40% or even 45%). In contrast, profits in a company are subject to Corporation Tax – currently 19% for small profits, up to 25% for larger profits (as of April 2025).

However, it's important to note that the tax advantage exists at the company level. If you want to draw the profits out for personal use, you'll then pay personal tax (at dividend tax rates) on those withdrawals. Whether or not you will save tax overall depends on a range of factors including the portfolio's overall profits and your marginal rate of income tax. It's

important to approach incorporation using forecasts based on your specific situation – you may or may not save tax overall.

- Using a company can also open up inheritance tax (IHT) planning opportunities for landlords who want to pass their property wealth to the next generation.
- Restrictions applicable to dwelling-related loan interest and associated finance costs were introduced in 2017, meaning individual buy-to-let owners can only claim a basic-rate tax credit (20%) on their finance interest, rather than deducting it as an expense. This means higher-rate taxpayers effectively pay tax on part of their mortgage interest. Limited companies are not subject to the restriction. When you hold property in a company, the mortgage interest is treated as a business expense and can be deducted in full against rental income before calculating taxable profit.

### **Disadvantages:**

- Compared with individual ownership, a limited company requires more administration and comes with a much bigger compliance burden.
- Generally, the costs involved in a limited company obtaining finance are higher than those for individuals.
- Typically, you will need to 'sell' your properties to the new company, which would trigger both Stamp Duty Land Tax (SDLT) and Capital

Gains Tax (CGT) charges. It's essential to calculate these costs to see if the long-term tax savings justify the immediate hit.

## Council tax expected to rise by 5%

The Chancellor of the Exchequer, Rachel Reeves, presented her Spending Review to Parliament on 11 June. Documents from the Spending Review suggest that Council Tax will rise by 5% each year.

Local councils have the power to raise the tax by 5% a year, although some impose lower increases. The Spending Review, however, assumes all councils will raise the tax to its maximum level.

It is well-known that council budgets are under severe financial pressure. The Spending Review did not appease councils who were hoping for more grant funding. It is likely that councils will need to raise Council Tax by the maximum amount to cover shortfalls.

## Housing, Communities and Local Government Committee

In an 8 July meeting of the Housing, Communities and Local Government Committee (HCLG), Housing Secretary Angela Rayner refused to address requests to unfreeze Local Housing Allowance (LHA) rates.

The LHA is intended to help people cover affordable housing costs, but it has not kept up with rent increases in the past

decade. In Budget 2024, Rachel Reeves announced an LHA freeze for 2025/26, meaning it will not rise in line with inflation or increased rents.

The Housing Secretary was questioned by several committee members who echoed the concerns of anti-poverty campaigners when they described how freezing the LHA was pushing more families into poverty.

Instead of addressing the LHA freeze, Ms Rayner responded by highlighting the government's Affordable Homes Programme and the measures to protect tenants in the Renter Rights Bill.

## Scotland: Housing taxes reimagined

The UK Collaborative Centre for Housing Excellence has published a report, 'Sustainable Housing Policy in Scotland: Reforming Devolved Property Taxation'.

The report critically assesses the contribution and effects of Council Tax and LBTT in Scotland.

The report suggests that the Council Tax System is reformed and LBTT is abolished.

For more information, read [here](#).