



# Transferring Investment Property to a UK Limited Company



**DENTAL & MEDICAL**  
FINANCIAL SERVICES

# Financial and Tax Implications for UK Landlords

This presentation will provide a comprehensive analysis of the complex decision to transfer personally-owned rental properties into a limited company structure. We'll explore the potential tax advantages, significant up-front costs, and long-term implications to help landlords make informed decisions based on their specific financial circumstances and investment goals.

## Evaluate Tax Implications

Understand the potential tax savings and liabilities associated with incorporating your rental properties, including capital gains tax, stamp duty, and changes to income and corporation tax.

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## Weigh Long-Term Impacts

Analyse the ongoing taxation and administrative requirements of operating a property business through a limited company, and how this may affect your investment strategy and cash flow over time.

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## Consider Upfront Costs

Assess the significant one-time expenses involved in the incorporation process, such as legal fees, valuation costs, and mortgage arrangement fees.

# Executive Summary: The Incorporation Trade-off

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## Section 24 Impact

Most higher-rate landlords now pay income tax on gross rents due to the Section 24 mortgage interest restriction. A company instead pays corporation tax on net profit and still deducts 100% of finance costs.

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## Frictional Costs

Moving a property into a company is treated as a sale at market value, triggering Stamp Duty Land Tax (SDLT) for the company and Capital Gains Tax (CGT) for the individual unless specific reliefs apply.

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## Limited Reliefs

Incorporation Relief can defer CGT if the landlord runs a genuine "property business" and transfers the entire enterprise in exchange for shares. SDLT partnership relief is available only where a long-standing partnership exists before incorporation.

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## Corporate Costs

Annual accounts, professional fees, possible ATED charges on dwellings over £500k, and less competitive mortgage rates increase running costs.

The decision hinges on four key variables: size of the portfolio, mortgage gearing, personal tax band, and long-term exit strategy. In many cases, a phased strategy—keeping existing properties personally and purchasing new acquisitions via a Special Purpose Vehicle (SPV) company—delivers most of the tax benefit with minimal friction.

# The Changing Fiscal Landscape for Private Landlords

## Section 24 Mortgage Interest Restriction

Since April 2020, private landlords may deduct only a flat 20% tax credit for finance costs. Higher-rate and additional-rate taxpayers therefore pay tax on gross rents, driving effective tax rates above 50% in heavily geared situations.

## Corporation Tax Rules

Small profits up to £50,000 are taxed at 19%; profits above £250,000 at 25% with marginal relief in between. Unlike individuals, companies still deduct 100% of mortgage interest and all directly attributable expenses.

## SDLT Surcharge for Companies

A company buying residential property always pays the 3% additional-property surcharge plus a fixed 5% on the first £250k and higher stepped rates thereafter. Properties above £500k acquired by certain corporate bodies incur a flat 17% rate unless rental-business relief applies.



These tax changes have dramatically altered the landscape for UK landlords, making incorporation an increasingly attractive option for some, despite the significant up-front costs involved in the transfer process.

# Up-Front Taxes on Incorporation

Tax	Who pays?	Basis of charge	Possible relief	Typical hurdles
Capital Gains Tax	Individual vendor	Market value – original cost	s162 Incorporation Relief (defers gain)	Must prove "business", transfer ALL assets, receive shares only
Stamp Duty Land Tax	Company purchaser	Market value (connected party rule)	Partnership relief (Sch 15), group relief	Partnership must be genuine and pre-existing; anti-avoidance s75A applies
Early Mortgage Repayment	Individual	Lender ERC schedule	None	Charges between 1% – 5% of loan balance common

## CGT Example

Sarah bought a buy-to-let in 2010 for £180,000. Current value £320,000; gain £140,000. She is a higher-rate taxpayer. CGT at 24% (2025 rate for residential disposals) = £33,600. If her activity meets the Ramsay "business" test, s162 relief postpones payment until she disposes of the shares.

## SDLT Example

The company must pay SDLT on £320,000 at company rates:

- 5% on first £250,000 = £12,500
- 10% on next £70,000 = £7,000
- Total SDLT = £19,500

# Ongoing Taxation After Transfer

## Rental Profits

Corporation tax due on net profit after deducting mortgage interest, repairs, agent fees, accountancy, and other wholly & exclusively expenses.

## Extracting Cash

- Salary deductible for corporation tax but incurs PAYE and NICs.
- Dividends paid from post-tax profits; taxed at shareholder dividend rates.
- Director's loan repayments tax-free up to original capital introduced; interest can also be paid and deducted by the company.

## ATED and Annual Compliance

Companies holding UK dwellings worth £500,000 must file ATED returns and may pay an annual charge unless the property is let to unconnected tenants on commercial terms.

## Finance Costs and Mortgage Rates

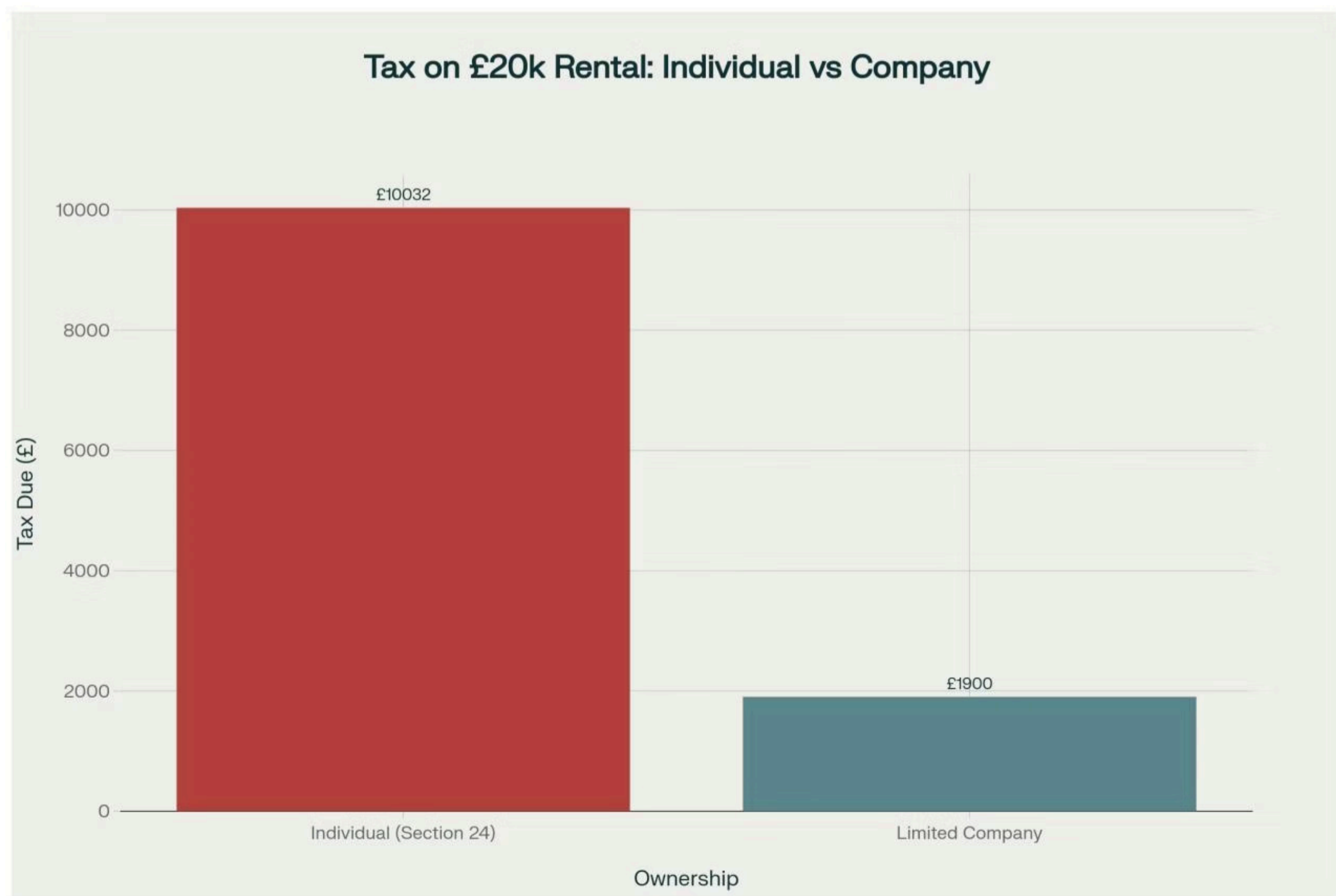
Limited-company buy-to-let mortgages typically carry interest rates 0.5-1% higher and lower maximum loan-to-value ratios.

## Quantifying the Income-Tax Saving

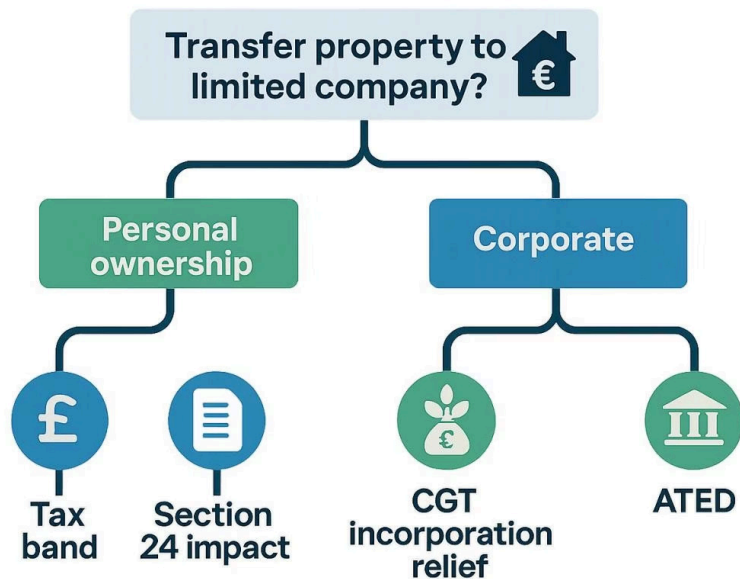
A landlord with £20,000 gross rent, £9,000 interest, £1,000 repairs:

- Personal ownership (40% band): taxable profit £19,000; tax £7,600 plus 20% credit (£1,800) ⇒ £5,800
- Company ownership: taxable profit £10,000; corporation tax 19% ⇒ £1,900

The potential annual saving is £3,900, as visualised below.



# Decision Tree for Landlords



## Key Decision Nodes

1. Personal Tax Band: Basic-rate taxpayers often gain little; higher-rate taxpayers move to next node.
2. Mortgage Interest Proportion: If finance costs exceed 25% of rent, Section 24 bite is severe, favouring incorporation.
3. Unrealised CGT & SDLT Cost: High embedded gains and large property values raise entry costs; weigh against projected savings.
4. Partnership or Business Test: Demonstrable 20+ hours/week management plus multiple properties improves chance of relief.
5. Growth & Succession: Plans to reinvest profits, attract investors, or pass shares to heirs (with Business Relief) tilt toward company route.
6. Compliance Tolerance: Willingness to prepare statutory accounts, ATED returns, and pay higher mortgage rates is essential.

# Illustrative Scenarios

1

## Small Single-Let Landlord

- One flat, no mortgage, rental profit £8,000
- Section 24 has no impact; SDLT on transfer would be £15,000
- **Recommendation:** Retain personal ownership; costs outweigh benefit

2

## Highly Geared Portfolio

- Four houses, value £1.2m, mortgages £800k, rental income £60k, interest £32k
- Section 24 converts £60k gross into £28k taxable profit → £11.2k tax at 40%
- In company: profit £28k less interest £32k = £28k loss carried forward; no tax
- SDLT on incorporation using partnership relief formula could be negligible after five-year family partnership
- **Recommendation:** Form partnership now, incorporate after two years to secure both SDLT and CGT reliefs

3

## Inheritance Planning Case

- Parents (basic-rate) intend to pass five HMOs to adult children
- Moving portfolio to a company today defers CGT and allows staged gifting of shares, qualifying for Business Relief after two years
- SDLT remains payable but may be mitigated by partnership rules
- **Recommendation:** Incorporate primarily for succession rather than income-tax saving

Factor	Company	Individual
Annual accounts & CT600	Mandatory; £1,000–£2,500 per annum	Self-assessment only
ATED filing	Required if value £500k	Not applicable
Mortgage availability	Fewer lenders; higher rates	Wider market
Privacy	Shareholders & accounts public at Companies House	Private
Exit route	Share sale can transfer liabilities; CGT on shares	SDLT on each property sale

# Conclusion: Making the Right Decision

Transferring property to a limited company can transform the post-tax yield for highly-g geared, higher-rate landlords or those seeking to build portfolios within a corporate envelope.

Yet the transaction taxes, finance costs, and compliance burdens can easily eclipse the benefit for lightly-g geared or basic-rate investors.

## Landlords should:

1. Model ten-year cash flows with and without incorporation, including SDLT, CGT, ATED, mortgage differentials, and extraction taxes.
2. Assess relief eligibility early—form genuine partnerships, keep timesheets, and collect evidence of active management to satisfy HMRC.
3. Consider hybrid strategies, purchasing future properties through an SPV while retaining existing stock personally until natural disposal or death.



## Professional Advice Essential

Professional tax and legal advice is indispensable; the stakes routinely exceed five-figure sums. A clear-headed walk through the decision tree will prevent costly one-way moves and ensure the structure chosen aligns with both current cash-flow needs and long-term succession goals.



# Contact Us

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