

# John Kerr

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## GOING LIMITED

SHOULD YOU TRANSFER YOUR PROPERTY RENTAL BUSINESS INTO A LIMITED COMPANY?

### THE SCENARIO

A Property Investor with a mixed commercial and residential portfolio was advised to transfer his property rental business into a limited company and asked me for a second opinion. He wanted to know how tax efficient this would actually be?

### OUR SOLUTION

There is a very widely held belief that Limited Companies are a 'Good Thing' vis-à-vis tax. The reality for most property investors can be quite different.

The first thing to consider is the tax cost of transferring the properties into the company. As a transaction between connected parties (the investor and his own company) market values need to be used in the calculations. The tax reliefs which apply when a trading operation is transferred into a Limited Company do not apply to a property letting business. The investor therefore faced a significant capital gains tax bill on the transfer of the properties into the company. Stamp duty was also payable!.

The tax impact on the ongoing running of the business within the Limited company was more mixed. The 'pros' included a lower rate of corporation tax compared to income tax. The 'cons' included the additional personal tax payable on the extraction of profits from the company (either as dividends or salary).

In the longer term when considering the ultimate disposal of the properties, Capital Gains Tax (CGT) becomes very important again. Taper relief is only available to individuals as is the annual CGT exemption. The investor benefited from Business Asset Taper relief on some of his commercial property, and this would have been effectively lost on the transfer to the limited company as the shares were unlikely to qualify.

### CONCLUSIONS

For the great majority of investors putting a property rental business into a company is unlikely to be a sensible move. For this investor my advice prevented him from making an expensive mistake!

**For more information on how John Kerr Chartered Accountants can help you take your business forward, contact Julia Casimo on 0151 228 8977**



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