

# *Buy to Let Borrowing for Limited Companies*

*Frequently asked questions*



# *Buy to let borrowing for Limited Companies*

Restrictions on mortgage interest tax relief have reduced profits for many landlords borrowing in their own name. Landlords in the higher and additional tax rate brackets can only claim tax relief on finance costs – such as mortgage interest – at the basic rate of 20% instead of at their highest marginal rate.

The restriction also extends to landlords whose total income, including their buy to let income (before deduction finance costs), pushes them into a higher tax bracket.

Consequently, many landlords have found that borrowing through an SPV Limited Company is much more tax-efficient. In this guide, we look at why a Limited Company might be right for you.

*Here is everything you need to know,  
but if you need more, speak to one of  
our experts.*

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## *Should I be borrowing via a Limited Company?*

For many landlords, taking out a buy to let mortgage via a Limited Company is now more tax-efficient than borrowing personally. However, we advise you to seek professional tax advice before you make any property investment decisions.

The Prudential Regulation Authority regulates BTL mortgages for Limited Companies differently from those for individuals. This means that, in general, you can borrow more against a property through a Limited Company than as a landlord borrowing personally (more on this later).



## *How will my taxation work through a Limited Company?*

Limited Companies pay Corporation Tax, not Income Tax, and as such were not affected by the changes to tax relief on finance costs for personal buy to let borrowers. However, when the company owners extract the net income from the company, Income Tax on either the salary or dividends will be due.

Everyone's circumstances are unique, so please ensure you take professional tax advice before proceeding.

## *How do I set up a SPV Limited Company?*

You can ask your accountant to set one up for you or do it online at Companies House. Setting up an SPV is relatively quick, easy and inexpensive, costing about £12. Full details can be found at [GOV.UK](https://www.gov.uk).

## *Are buy to let mortgages for Limited Companies more expensive?*

It all depends on the lender. As Limited Company borrowing has become more popular, many more lenders, 'vanilla' and specialist, have entered the Limited Company market, making pricing more competitive. Some specialist lenders even offer the same rates for individuals, SPVs and Trading Limited Companies. However, on the whole, Limited Company rates are marginally higher on a like-for-like basis.







## *Does it take longer to process a Limited Company application?*

Generally speaking, no. Applications made by individuals and newly set up Limited Companies take about the same time to process. The background checks for Limited Companies are carried out against the director(s) as opposed to the Company itself, making both processes fairly similar.

SPVs with existing portfolios and Trading Limited Companies may take longer to process because lenders will complete more background checks on the company, including its accounts, properties held and directors.

## *Why can I borrow more via a **Limited Company** than personally?*

The Prudential Regulation Authority (PRA) has set guidelines requiring lenders to carry out tighter stress tests on individual landlords due to the higher rate of Income Tax. As Limited Companies pay Corporation Tax, lenders can give them more generous income cover ratios.

## *What's the difference between a **SPV** and a **Trading Limited Company**?*

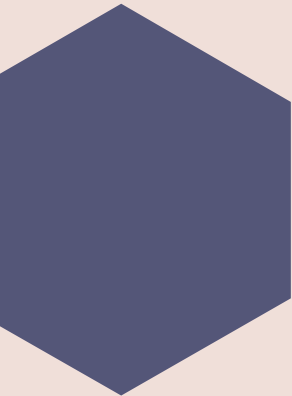
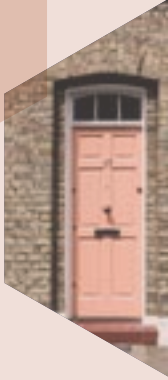
A Special Purpose Vehicle (SPV) Limited Company is a corporate structure set up for the single purpose of buying, selling and renting out real estate, unlike a Trading Limited Company, which is used to run a business.

# *SPV or Trading Limited Company? Does it matter?*

From a lender's perspective, applications from SPVs are quicker and more straightforward to underwrite than applications from Trading Limited Companies, which require a greater level of understanding by the underwriter. Because of this, more options are available for SPVs, and the pricing tends to be lower. However, the benefits of owning property within your Trading Limited Company should be explored with your accountant.

## *Can I borrow through a newly created **SPV** with no accounts?*

Yes. The lender will underwrite the mortgage based on the individual's (directors and/or majority shareholders) circumstances. Nearly all lenders require directors and majority shareholders to provide personal guarantees, which means they are ultimately responsible for the mortgage if the company cannot settle mortgage liabilities.





# What is a SIC code?

The Standard Industrial Classification of Economic Activities (SIC) categorises business establishments by the type of economic activity in which they are engaged. Most lenders require Limited Company borrowers to have a SIC code from “Section L: Real estate activities”. Typically, borrowers will use one of these four codes:

- 68100 – Buying and selling of own real estate
- 68209 – Other letting and operating of own or leased real estate
- 68320 – Management of real estate
- 68201 – Renting and operating of housing association real estate

## How do you get a SIC code?

To choose a SIC code(s) for your company, use the official Condensed SIC list on the Gov.uk website. A SIC code can only be altered when filing the SPV’s Annual Return (now re-branded as a “confirmation statement”) with Companies House. However, it is possible to file these at any date (in advance of when due), thereby changing the company’s SIC code.



# *Can I transfer personally owned rental property to a Limited Company?*

No. By law, the transaction has to be treated as a sale to your company and is classed as a related or linked transaction. The good news is that most buy to let lenders that offer products to Limited Companies will consider related transactions.

Bear in mind that the sale is a taxable event, meaning you will usually have to pay Capital Gains Tax on the sale and Stamp Duty (SDLT), including the 3% surcharge, on the purchase by the Limited Company. In certain circumstances, the Capital Gains Tax can be “rolled over” into the shares in the Limited Company, and incorporation of a property-owning partnership may be exempt from Stamp Duty. You must check with your accountant or solicitor on the impact of these taxes and reliefs.

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