THE TAX SHOP GROUP — CLIENT GUIDE

How Limited Company Buy-to-Let Works

Section 24, incorporation mechanics, SDLT on transfer, and when the numbers support a company structure for property investment.

Why landlords consider incorporating

Since April 2020, individual landlords can no longer fully deduct mortgage interest as an expense against rental income. Instead, they receive a basic-rate tax credit (20%) for the interest paid. This is known as the **Section 24 restriction**.

For higher-rate (40%) and additional-rate (45%) taxpayers, this means paying tax on rental income that is largely consumed by mortgage payments. In some cases, the tax payable can exceed the actual cash profit.

A limited company is not affected by the Section 24 interest restriction. The company deducts mortgage interest as a normal business expense, and profits are taxed at the corporation tax rate.

Structure	Mortgage interest treatment	Tax rate on profits
Individual (40% taxpayer)	20% basic-rate credit only	Up to 45%
Limited company	Full deduction	19–25% corporation tax

How incorporation works

Incorporating a property portfolio means transferring the properties from individual ownership into a limited company. This is not a simple administrative change — it is a disposal for tax purposes.

The transfer itself

The individual sells (or transfers) the properties to the company. This triggers two main potential tax charges:

- **Capital Gains Tax (CGT)** — on the gain between original purchase price and current market value
- **Stamp Duty Land Tax (SDLT)** — the company pays SDLT on the market value of the properties, including the 5% surcharge for additional dwellings (from October

2024)

Section 162 holdover relief

If the portfolio qualifies as a **business** (not merely passive investment), **Section 162 TCGA 1992** allows the CGT to be deferred. The gain is "held over" into the shares of the new company rather than being charged immediately.

Qualification depends on the level of active management: number of properties, tenant management, maintenance decisions, and the time the landlord spends on the activity. HMRC does not set a bright-line test, so professional advice on whether your portfolio qualifies is essential.

> Section 162 defers the CGT rather than eliminating it. The gain is embedded in the company shares. When the shares are eventually sold or the company is wound up, the deferred gain may crystallise.

SDLT — the main cost

SDLT is often the largest upfront cost of incorporation. The company pays SDLT on the market value of the properties at the rates applicable to additional dwellings. For example, for a portfolio valued at £1 million, the SDLT bill can exceed £90,000.

This cost must be weighed against the annual tax saving from full mortgage interest deduction. The breakeven period — how many years of tax savings it takes to recover the SDLT — is one of the key numbers in any incorporation analysis.

When the numbers work

Incorporation is most likely to be beneficial when:

- The landlord is a **higher-rate or additional-rate taxpayer**
- The landlord intends to **hold the properties long-term** (years of compounding tax savings outweigh the upfront SDLT)
- The landlord plans to **grow the portfolio** (future purchases through the company benefit from full interest deduction from day one)
- **Section 162 holdover relief is available** (the portfolio qualifies as a business)

When it may not work

- **Basic-rate taxpayers** — the tax differential is small; SDLT may never be recovered

- **Low or no mortgage debt** — without mortgage interest, Section 24 has no impact
- **Short holding period** — if properties will be sold within a few years, there is insufficient time to recover the SDLT
- **Properties with large unrealised gains and no Section 162 relief** — the CGT charge on transfer may be prohibitive

Ongoing differences in a company structure

Factor	Individual	Company
Tax on rental profit	Up to 45%	19–25%
Mortgage interest	20% credit only	Full deduction
Extracting profits	Directly yours	Via salary or dividends (additional tax)
Tax on future sale	18% or 24%	Corporation tax on the gain, then further tax if profits are extracted personally
Annual compliance	Self Assessment	Company accounts, CT600, confirmation statement
Mortgage availability	Wider choice	Limited company products (typically higher rates)

> The tax saving on rental profits must be weighed against the additional cost of extracting those profits from the company.

We review potential incorporations

An incorporation review models the full financial case for your specific portfolio:

- **Company Share Valuation** — valuation for SDLT and CGT calculations
- **Section 162 eligibility** — does your portfolio qualify for holdover relief?
- **SDLT calculation** — the exact cost of transfer
- **Annual tax comparison** — individual vs company, year by year
- **Breakeven analysis** — how many years until the tax savings recover the SDLT cost

- **Extraction modelling** — how profits will be drawn and at what tax cost

The review typically produces a written report outlining the analysis and the options available. You are not committed to proceeding — the report can be provided as a standalone piece of advice.

> Incorporation of a property portfolio involves legal, tax, and mortgage considerations, and the tax treatment depends on individual circumstances, ownership structures, and financing arrangements. Professional advice should be obtained before any transfer of properties to a company is undertaken.

The Tax Shop Group — ACCA Regulated Practice

01604 800282 | team@taxshopgroup.com | taxshopgroup.com