Buy-to-Let Borrowing for Limited Companies

Your Guide

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Recent changes to mortgage interest tax relief have impacted many landlords borrowing in their own name, reducing their profits. If you're in the higher or additional tax rate brackets, you can now only claim tax relief on your mortgage interest at the basic rate of 20%, instead of your highest marginal rate.

This also affects landlords whose total income, including buy- to- let income (before finance costs), pushes them into a higher tax bracket.
As a result, many landlords are finding that borrowing through an SPV (Special Purpose Vehicle) Limited Company can be a more tax-efficient option.

In this guide, we'll explain why this could be the right choice for you. If you'd like more details, feel free to speak with one of our experts.

Should I Borrow Through 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 strongly recommend seeking professional tax advice before making any decisions regarding your property investments.

The Prudential Regulation Authority (PRA) regulates buy- to- let mortgages for Limited Companies differently from individual landlords. This often means you can borrow more through a Limited Company than you could as a personal landlord (we'll explain more on this later).

How Will Taxation Work for My Limited Company?

Limited Companies pay Corporation Tax instead of Income Tax, so they aren't affected by the changes to tax relief on finance costs for individual buy- to- let borrowers. However, when company owners extract the net income, they'll need to pay Income Tax on either the salary or dividends they receive.

Everyone’s situation is different, so be sure to get tailored tax advice before proceeding.

How Do I Set Up an SPV Limited Company?

TYou can ask your accountant to set one up, or you can do it yourself online through Companies House. It’s a straightforward process, and the cost is around £12. Full details can be found on www.gov.uk .

Are Buy-to-Let Mortgages for Limited Companies More Expensive?

It depends on the lender. As Limited Company borrowing has become more popular, more lenders have entered the market, making pricing more competitive. Some specialist lenders even offer the same rates for individuals, SPVs, and Trading Limited Companies.

However, on the whole, rates for Limited Companies tend to be slightly higher on a like-for-like basis.

Does It Take Longer to Process a Limited Company Application?

Generally, no. Applications for individuals and newly created Limited Companies take about the same amount of time. Lenders carry out background checks on the director(s) rather than the company itself, so the process is quite similar.

However, applications from SPVs with existing portfolios or Trading Limited Companies may take longer, as lenders will perform additional checks on the company’s accounts, properties, and directors.

Why Can I Borrow More Through a Limited Company Than Personally?

The Prudential Regulation Authority (PRA) requires lenders to apply stricter stress tests to individual landlords due to higher Income Tax rates.

Since Limited Companies pay Corporation Tax, lenders can offer more favourable income cover ratios, allowing you to borrow more.

What's the Difference Between an SPV and a Trading Limited Company?

An SPV (Special Purpose Vehicle) Limited Company is set up specifically for buying, selling, and renting out property, whereas a Trading Limited Company is used to run a business.

SPV or Trading Limited Company – Does It Matter?

From a lender's perspective, applications from SPVs are typically quicker and easier to underwrite than those from Trading Limited Companies, which require more detailed analysis. This means SPVs often have more options available and may benefit from lower rates. However, the advantages of holding property in a Trading Limited Company should be explored with your accountant.

Can I Borrow Through a Newly Created SPV with No Accounts?

Yes. The lender will assess the application based on the directors' and majority shareholders' circumstances. Nearly all lenders will require directors and shareholders to provide personal guarantees, meaning they're ultimately responsible for the mortgage if the company can't meet its liabilities.

What Is a SIC Code?

The Standard Industrial Classification of Economic Activities (SIC) categorises businesses by their type of economic activity. Most lenders require Limited Company borrowers to use a SIC code from "Section L: Real Estate Activities." The most commonly used codes include:

- 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

Can I Transfer Personally Owned Rental Property to a Limited Company?

No. Legally, this would be considered a sale to your company, and the transaction would be treated as a related or linked transaction. The good news is that most bu-y to- let lenders will consider related transactions. Keep in mind that this is a taxable event, so you'll likely have to pay Capital Gains Tax on the sale and Stamp Duty (including the 5% surcharge) on the purchase by the Limited Company.

In some cases, the Capital Gains Tax can be "rolled over" into the company shares, and incorporating a property-owning partnership may exempt you from Stamp Duty. Speak to your accountant or solicitor to understand the potential tax implications and available reliefs.