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Fresh thinking for a new tax world

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Agenda

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The tax-saving schemes we are seeing

Lenders’ views

Case studies

Things to consider

How Paragon can help

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Important note

- The information provided in this presentation site is of a general nature. Paragon does not provide tax advice and this material has been prepared for information purposes only.

- It is not a substitute for specific advice on your own circumstances. You are recommended to obtain specific professional advice from a professional accountant before you take any action or refrain from action.

Tax relief

- Corporation vs Personal Tax
  - Various benefits
  - Various ways of introducing funds – director’s loan, share issue, company structure, inter-company loan
  - There are factors to be aware of

Trading company and SPV subsidiary

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Trading / subsidiary structure

Mr A
25% shareholder

Mrs A
25% shareholder

Mr B
25% shareholder

Mrs B
25% shareholder

A & B Marketing Ltd
Trading company established 2009
80% shareholder in SPV

SPV Newly set-up
SIC Code 68100

Miss A (daughter of Mr & Mrs A)
20% shareholder of SPV

Tax relief

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- Stamp Duty Land Tax (SDLT) and Capital Gains Tax (CGT)
  - The **whole** business must be incorporated

2015 — Several properties purchased in personal name

2018 — Partnership agreement drawn up and registered with HMRC

2020 — Beneficial interest company transfer?

2021 — Business incorporated into limited company

Beneficial interest

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- Client retains the legal title and mortgage in personal name and relies on the principle that taxation follows beneficial ownership, not legal title
- There is a strong debate about whether this method could be considered contrived and fall foul of HMRC anti-avoidance legislation

Beneficial interest

- Lenders are generally not in favour of this route and are unlikely to give approval. This may not be permitted in mortgage documentation
- Complications if refinancing a property that has been subject to these arrangements

Lender’s view of various incorporation routes

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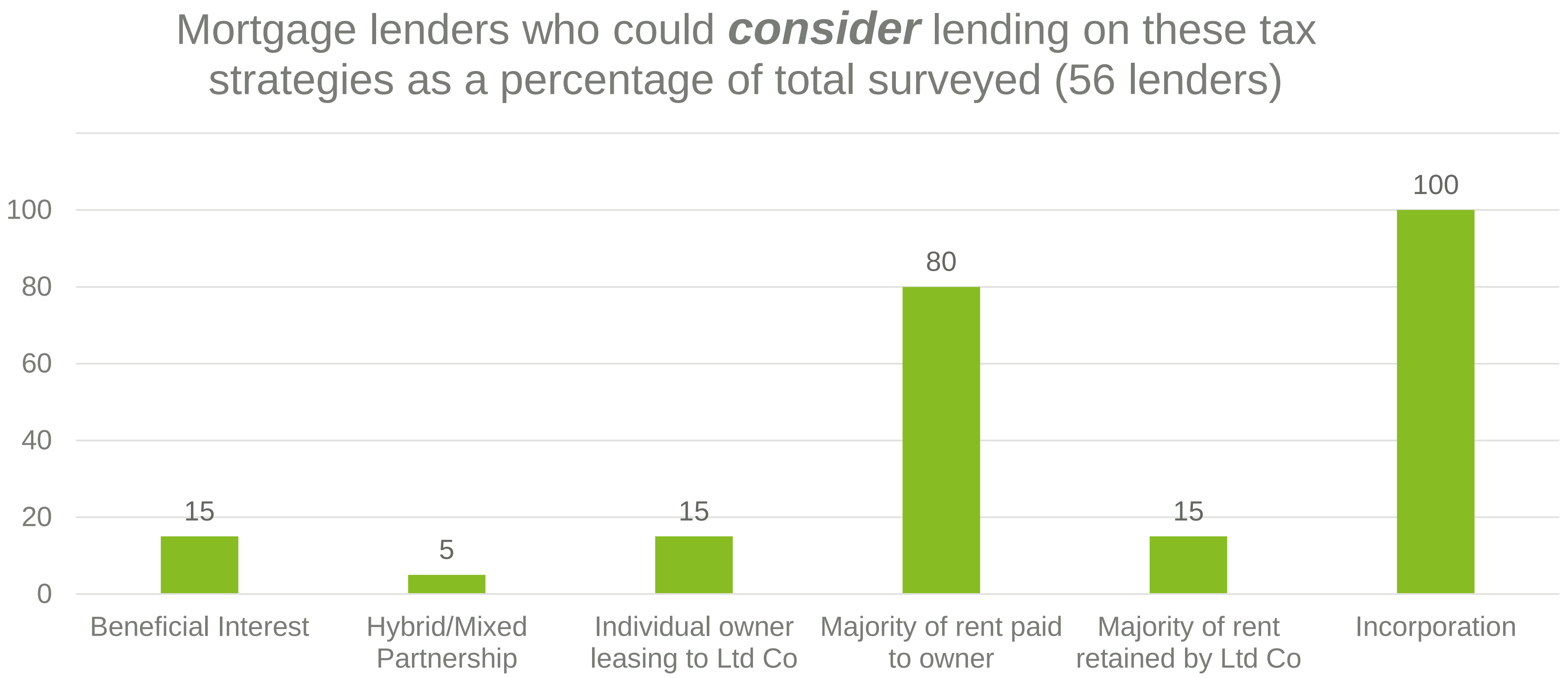

Courtesy of Vincent Burch Ltd.

Scenario

Mr and Mrs Smith have two children and own a self-managed portfolio of 15 properties, with a **value of around £4.6million**, with **loans of £2.52million**.

Both applicants are **limited company directors**, with non-property incomes of **£40,000 each**.

Case study: landlord incorporation

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Monthly rental income received

£15,332

Interest Only payments at 3.49%

£7,336

Gross profit for rental portfolio

£95,952

Tax liability for rental portfolio 2020/2021

£69,286 plus full repayment of Child Benefit now due, circa £1,788

Net profit after tax

£26,666

How?

- Advised to incorporate their portfolio by tax adviser
- Pre requisite for SDLT relief is to demonstrate that the portfolio has been run as a partnership for two years
- Remortgaged their portfolio to Paragon, on five-year fixed rates

How?

- Upon submission of the second years' partnership returns, they contacted Paragon to incorporate their portfolio*
- Deed of covenant issued by Paragon to applicants' solicitors and lodged with Land Registry

*admin fee of £97.50 per property plus clients' legal costs

How?

FINAL RESULT

Paragon allowed all 15 accounts to be incorporated to limited company ownership, on the same rate/terms as before.

The end result

The borrowers **incorporated** their portfolio through limited company ownership. As a result:

Monthly rental income received	Interest Only payments at 3.49%	Taxable profit	Corporation tax at 17%	Net profit
£15,332	**£7,336**	**£95,952**	**£16,312***	**£76,640** (£26,666 prev.)

* Providing profits are retained within the business, the applicants no longer have a requirement to repay their child benefit. There will be additional tax when the profits are extracted.

Let to buy

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£180,000

- Applicants wish to upsize but retain their current main residence on a buy-to-let basis. New residential purchase is £450,000.
- Traditional let to buy would mean applicants are liable for 3% levy against new purchase – total stamp duty payable is £26,000

Let to buy

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Client sells their current residential property to the limited company

↓ ↓

Stamp Duty is payable by the limited company

↓ ↓

The client can then buy their onward purchase without the 3% levy

Let to buy

paragon

£450,000

- Let to buy via limited company ownership would result in the following stamp duty:
  - Limited company purchase: £6,500
  - New main residence: £12,500
  - Total stamp duty payable: £19,000 (£26,000 Prev.)

This approach doesn't fit every clients' needs. The right advice is key.

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Thank you

Any questions?

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