

Contents

About Lee Sharpe	9
1. About This Guide	10
1.1. <i>Background – Developments Over the Past Few Years</i>	10
1.2. <i>Tax Rates and Devolved Taxes</i>	12
1.3. <i>Stamp Taxes</i>	12
1.4. <i>A Note About Pandemic Measures</i>	12
2. Choosing the Right Structure	16
2.1. <i>Sole Trader – “One Man Band”</i>	16
2.2. <i>Partnership</i>	16
2.3. <i>Limited Company</i>	17
2.4. <i>Types of Partnerships – or is it a Joint Venture?</i>	17
2.4.1. A “Limited Partnership”	18
2.4.2. A Limited Liability Partnership (also referred to as an “LLP”)	18
3. Getting to Grips with Limited Companies	20
3.1. <i>The Different Types of Limited Company</i>	20
3.2. <i>The Basic Rules for a Company</i>	20
4. Understanding Corporation Tax	23
4.1. <i>The Rates of Corporation Tax</i>	23
4.2. <i>Key Dates for the Company</i>	23
4.3. <i>Benefiting from the Favourable Company Taxes</i>	24
4.4. <i>Extracting the Cash from the Company</i>	25
4.4.1. Paying a Salary	25
4.4.2. Paying Dividends Instead	28
4.4.3. Paying Dividends and a Salary	31
5. Building Up a Property Portfolio Using a Company	35
5.1. <i>Using a Company to Grow Your Property Portfolio</i>	35
6. Disallowance of Mortgage Interest on Residential Properties	37
7. Everything You Need to Know About Dividend Payments	39
7.1. <i>Working with “Distributable Profits”</i>	39
7.2. <i>Who Gets the Dividends?</i>	40
7.3. <i>The Two Types of Dividend</i>	40
7.3.1. A “Final” Dividend	41
7.3.2. An “Interim” Dividend	41
7.4. <i>Getting the Paperwork Right</i>	41

7.4.1.	Sample – Meeting Minute	41
7.4.2.	Sample – Dividend Confirmation	43
7.5.	<i>Two Pitfalls to Avoid when Making Dividend Payments</i>	44
7.5.1.	“Illegal” Dividends	44
7.5.2.	Timing of Dividends	44
7.6.	<i>Using Dividend Waivers – An Effective Tax Planning Tool</i>	44
7.7.	<i>Watch out for the “Settlements” Legislation</i>	45
8.	The Property Development Company	47
8.1.	<i>The Property Developer</i>	47
8.2.	<i>Companies and Property Developers</i>	47
8.3.	<i>The Construction Industry Scheme (“CIS”)</i>	51
8.4.	<i>Other Considerations for Property Developers – and Occasional Developers</i>	52
9.	Incorporation Relief	54
9.1.	<i>Transferring Assets into Your Company</i>	54
9.1.1.	Holdover Relief for Gifts of Business Assets	54
9.1.2.	Incorporation in Exchange for Shares	56
9.2.	<i>Watch Out for Some Pitfalls</i>	57
9.2.1.	“Preordained Series of Transactions”	57
9.2.2.	Stamp Duty Land Tax	57
9.2.3.	What is a “Business”?	58
9.2.4.	Highly-Geared Businesses	58
9.3.	<i>Comparing Incorporation and Gift Relief – Key Points</i>	58
9.4.	<i>Incorporating an Existing Property Investment Portfolio</i>	59
10.	Entrepreneurs’ Relief (“ER”) from CGT – Now “Business Asset Disposal Relief” .	60
11.	Reinvestment Relief	62
11.1.	<i>Property Investors and Reinvestment Relief</i>	62
11.1.1.	Business Assets	62
11.1.2.	Furnished Holiday Lettings	62
11.2.	<i>Deferring Capital Gains by Reinvesting</i>	64
11.2.1.	Enterprise Investment Scheme (EIS)	64
12.	Some Property Tax Pitfalls	67
12.1.	<i>Partnerships?</i>	67
12.1.1.	Why Does It Matter?	67
12.2.	<i>SDLT Implications of Transfers Involving A Mortgage</i>	69
12.3.	<i>SDLT, Partnerships And Incorporation</i>	70
12.4.	<i>Increased SDLT Risk For Companies – Indecision Costs Money!</i>	70
12.5.	<i>Annual Tax On “Enveloped Dwellings” (ATED)</i>	71
12.6.	<i>Foreign Ownership</i>	72
12.6.1.	UK Capital Gains by Non-Residents	73
12.6.2.	SDLT Surcharge for Non-Resident Investors	74
12.7.	<i>International Tax Co-Operation</i>	75

12.8.	<i>Profits from Dealing In or Developing UK Land (“Transactions in Land”)</i>	75
12.9.	<i>How Limited is Your Limited Liability?</i>	79
13.	Close Companies	82
13.1.	<i>What is a Close Company?</i>	82
13.2.	<i>Special Rules for Close Companies</i>	83
13.3.	<i>The Meaning of a “Distribution” From a Close Company</i>	83
13.4.	<i>Loan To Participant – “s455 Tax”</i>	83
14.	The Directors’ Tax Liabilities	87
14.1.	<i>Tax on Non-Cash Benefits</i>	87
14.2.	<i>Expenses</i>	87
14.2.1.	<i>Travelling expenses</i>	87
14.2.2.	<i>Cars</i>	88
14.2.3.	<i>Using Your Own Car for Business</i>	88
14.2.4.	<i>Using Cars for Sole Traders and Partnerships</i>	88
14.2.5.	<i>Three Important Differences to Remember</i>	88
14.3.	<i>Other Expenses</i>	89
14.4.	<i>Shares as Rewards</i>	89
14.5.	<i>FOUR Tax Free Benefits</i>	91
15.	Companies and Tax Investigations	94
15.1.	<i>“Aspect” Enquiries</i>	94
15.2.	<i>“Compliance” Enquiries</i>	94
15.3.	<i>Full Enquiry</i>	95
15.4.	<i>“Grossing up”</i>	95
15.5.	<i>Company Investigation Settlements</i>	97
15.6.	<i>Watch Out for the Contractual Disclosure Facility (CDF) and COP 9</i>	99
15.7.	<i>Four Golden Rules of Tax Investigations</i>	99
16.	Getting Your Exit Strategy Right	100
16.1.	<i>Everybody Has an Exit Strategy</i>	100
16.2.	<i>The THREE Most Common Exit Strategies</i>	100
16.3.	<i>Selling the Business</i>	100
16.3.1.	<i>Benefits of Buying the Shares in the Company</i>	100
16.3.2.	<i>Drawbacks of Buying the Shares in the Company</i>	101
16.3.3.	<i>Benefits of Selling the Shares in the Company</i>	101
16.3.4.	<i>Benefits of Selling the Company’s Assets and then Liquidating</i>	102
16.4.	<i>Selling the Company’s Shares</i>	102
16.4.1.	<i>“Earn-outs”</i>	102
16.4.2.	<i>“Employment-Related Shares or Securities”</i>	104
16.4.3.	<i>Payments Under Warranties and Indemnities</i>	104
16.4.4.	<i>“Compensation for Loss of Office”</i>	104
16.4.5.	<i>Pre-Sale Tax Planning</i>	104
16.4.6.	<i>Company Purchase of Own Shares</i>	105
16.4.7.	<i>Timing</i>	105
16.4.8.	<i>Gifts to Spouse / Civil Partner</i>	106

16.4.9.	Substantial Shareholding Exemption	106
16.4.10.	Post-Sale Tax Planning	107
16.4.11.	Tax Shelters.....	107
16.4.12.	Losses	107
16.5.	<i>Sales of Assets and Liquidation of Company</i>	107
16.6.	<i>How to Liquidate a Company</i>	107
16.6.1.	A Formal Liquidation.....	107
16.6.2.	An Informal Liquidation.....	108
16.6.3.	But Beware “Phoenix Arrangements”.....	108
16.7.	<i>Dying in Harness and/or Living Off the Profits</i>	109
17.	Inheritance Tax and Companies.....	111
17.1.	<i>IHT – the Basics</i>	111
17.2.	<i>Nil Rate Band (NRB)</i>	111
17.3.	<i>Residence Nil Rate Band (RNRB)</i>	112
17.4.	<i>PETs</i>	113
17.5.	<i>Gift with Reservation of Benefit</i>	114
17.6.	<i>Spouse Exemption</i>	115
17.7.	<i>Business Property Relief</i>	115
17.8.	<i>Close Companies and IHT</i>	115
18.	Finding an Accountant.....	118
18.1.	<i>Accountants Qualifications</i>	118
18.2.	<i>General Advisor or Tax Specialist?</i>	119
18.3.	<i>How to Choose Your Adviser</i>	119
18.3.1.	Will I Need a Tax Adviser or an Accountant?.....	119
18.3.2.	What Qualifications?.....	119
18.3.3.	How Much Experience do they Have?	120
18.3.4.	How Much Will It Cost?	120
18.3.5.	Professional Bodies.....	120
18.3.6.	What About Indemnity Cover?.....	120
18.3.7.	How do I Contact My Tax Adviser / Accountant?	121
18.3.8.	Keep up to Date with Tax Legislation Changes	121
18.3.9.	What if I Have an Emergency?.....	122
18.3.10.	Does the Adviser Sell ‘Off the Shelf’ Packages?.....	122
19.	The Importance of Tax Planning	123
19.1.	<i>Knowing When to Consider Planning</i>	123
19.1.1.	Buying.....	123
19.1.2.	Repairs and Refurbishment.....	124
19.1.3.	Selling	124
19.1.4.	Life changes	125
19.1.5.	Politics	125
19.1.6.	End and Start of Tax Year.....	126
19.2.	<i>The Real Benefits of Tax Planning</i>	126
19.2.1.	Paying Less Tax	126
19.2.2.	Clear ‘Entrance’ and ‘Exit’ Strategies	126
19.2.3.	Staying Focused.....	126
19.2.4.	Improving Cash Flow.....	127
19.2.5.	Avoiding Common Tax Traps.....	127

19.3.	<i>The Golden Tax Rules</i>	127
19.3.1.	Education...Education...Education	127
19.3.2.	Prevention is Better Than Cure	128
20.	Appendix A – Template Documents	130
21.	Appendix B – Tables	133
21.1.	<i>Comparing Individual Property Investor with a Company (2021/22 v 2022/23)</i> ...	133
21.2.	<i>Comparing Individual Property Investor with a Company (2023/24 v 2024/25)</i> ...	135
21.3.	<i>Comparing Individual Property Investor with a Company (2015/16 v 2024/25)</i> ...	138
21.4.	<i>Comparing Net Property Developer (Trading) Income: Personal v Through a Company (2021/22 v 2022/23)</i>	140
21.5.	<i>Comparing Net Property Developer (Trading) Income: Personal v Through a Company (2023/24 v 2024/25)</i>	142
21.6.	<i>Comparing Net Property Developer (Trading) Income: Personal v Through a Company (2015/16 v 2024/25)</i>	144