



# How to set up your buy-to-let limited company

An easy guide to getting it right

# Get ahead of a growing trend in property investment

In the first three months of 2022, there were more buy-to-let companies set up than in all of 2014

Source: Companies House & Hamptons



## Why Use a Limited Company for BTL?

- Tax efficiencies: Deduct mortgage interest, lower corporation tax rates.
- Improved estate and inheritance planning.
- Easier to buy and sell property, and limit personal liability.

This sharp increase has primarily been driven by better technology allowing for companies to be created at a more affordable cost, and legal changes which can make taxes more efficient when properties are held in a company as opposed to a personal name. Information from you at the start of the process, this will only make your purchase smoother but most importantly you know what to expect when your lawyers reach out upon legal instruction.

**While company BTL has become the standard way to invest in property, most investors do not set up their limited companies correctly to maximize on their potential investment returns.**

The advantages of investing through companies are determined by the way the company is structured, the quality of its legal documentation, and the continuous management of that company.

# Navigating the process

Here, we provide an overview to help you navigate the sometimes complicated or seemingly long-winded process of forming and managing companies for property investment to ensure that you're getting the absolute maximum benefit from them.

This document should only serve as an information guide. Should you have any concerns or questions about your specific circumstances, please make sure to consult your advisor before forming or structuring your limited company.

## Across this document we'll cover:

### A

The key building block of a company and frequently asked questions.

### B

The differences between 'Shareholders' and 'directors' and the optimal way to structure shares in the company.

### C

The legal documents required to run a company.

### D

The financial benefits of a Limited Company.

### Tax Advantages of Limited Companies

- Lower capital gains tax (10–20% compared to 18–28% for personal ownership).
- Corporation tax on profits is lower than personal income tax rates (up to 45%).
- Stamp Duty Land Tax (SDLT) savings when transferring ownership via shares instead of direct property sale

# A

# Introducing the key building blocks of a BTL company

## 1.) What's a 'Standard Industrial Classification (SIC) Code', why do I need one and where do I find it?

When you form a company, Companies House, or any formation agent, will always ask you what the Standard Industrial Classification (SIC) code of your company is.

This essentially tells Companies House what type of company you are running. For instance, running a medical practice, or a buy to let company.



## Potential Pitfall:

In order for you to secure mortgage lending on your properties, it is important that you have the correct technical information in place for your company. If you do not have the correct technical information, you may limit the pool of lenders who will be happy to give you a mortgage, or delay the process further. Your lender may want to ensure that the company is set up for the sole purpose of holding investment property in order to approve financing for a purchase.

## Solution:

For property holding companies, it is typically best to ensure that the SIC code is 68209. You can simply do this by specifying it at Companies House, or with a formation agent.

## What Portico Invest Offers:

If you work with Portico Invest, this will automatically be done. It is also best that your company has limited activities. That is, the company only carries out property business specific to buy to let property and no other businesses. All companies at Portico Invest have the SIC code 68209.

## 2.) What business bank account should I use?

In order to qualify for a mortgage for your buy-to-let investment through a limited company, you will be required by your lender to have a business account that is compatible with the mortgage lender's requirements.

### Potential Pitfall:

A bank account that you hold in your personal name will not be acceptable.

### Solution:

Having a business account will considerably help with your mortgage lender's requirements. They also benefit your company by allowing you to keep track of all money that enters and leaves your properties, such as mortgage payments, rental incomes and all other related activities in one consolidated place.

In order for the bank account to be compatible with mortgage lender requirements, make sure your account have features such as:

- A UK sort code
- A UK account number
- Direct Debit functionality
- Ability to accept different payment types such as CHAPS, BACS and Faster Payments

### What Portico Invest Offers:

Portico Invest provides a suitable bank account to every new company formed on its platform.

## 3.) Why do I need a registered office address?

A UK company is required to have a registered office address in the UK, so that any company-related mail and documents can be sent to company directors.

### Potential Pitfall:

Using your home address as your company's registered office allows anyone to know where you live, as your address will be detailed next to your name on Companies House. Individuals or companies can therefore send unsolicited mail to you, or contact you directly at your home address.

### Solution:

In order to maintain your privacy and overall security, it is best to use a service that provides a registered office as part of their overall offering in turn allowing you to receive all company related mail safely and hassle-free.

### What Portico Invest Offers:

At Portico Invest, we ensure that every new company has a registered office address in the UK that is separate from the company owner's home address. All posts are scanned and uploaded to the platform, and we will alert you when that post has been received.

#### Costs for Limited Company Setup:

##### One-Time Setup Fee:

UK residents: £149.

Non-UK residents: £579.

Subscription Fees: £21.98/month per company, including accounting, tax returns, secretarial services, and registered office:

# B Shareholders and directors, and share structures

## 1.) What is a shareholder?

A shareholder is essentially an owner in the company and as such may receive company profits via dividends. UK companies require there to be at least one shareholder in the company.

A shareholder can own all of the shares in the company. Alternatively shares can be shared equally or unequally between two or more shareholders. For example, let's assume a company has 4 ordinary shares. One shareholder owns 1 share, another owns 3 shares. Each will then respectively own 25% and 75% of the company.

Being a shareholder typically means that you have voting rights and influence over the running of the company. You may also be paid dividends from company profits which is usually based on the % shareholding you have. For example, a shareholder that has 3 shares out of 4 in a company is typically entitled to 75% of the dividends.



### Potential Pitfall:

Make sure you determine early who you want your shareholders in your company to be. Although adding shareholders to your company later is a relatively straightforward process, it can cost time and legal fees to do so properly.

### What Portico Invest Offers:

Through our platform, we offer a fully digital platform for our clients to easily add and remove shareholders. All of the back-end processes are automated through our technology.

## 2.) What is a director?

A director has legal responsibility for the running of the company. It is a legal requirement that your company has at least one director in it. Most often, a director is also a shareholder, but not all shareholders will be directors.

### Potential Pitfall:

Directors have a number of legal duties such as exercising care, skill and diligence in the running of the company. They also have a number of administrative duties, such as the filing of company accounts on time. They can face substantial penalties if they do not carry out their duties correctly.

### Solution:

It is wise to use a specialist provider of BTL company management services to not only set-up and structure the company but also to manage the ongoing financial and secretarial administration of the company.

This saves considerable time and money - through our survey, on average landlords with no company management service provider spend anywhere between 2-7 days a month managing their company.

### What Portico Invest Offers:

As part of your monthly fee, Portico Invest offers our clients comprehensive digital company management services which includes small company account preparation and filing.

## 3.) What's the best share structure for my BTL company?

There are different types of shares that a company can be made up of, such as Ordinary shares, Alphabet shares, amongst others.

For property holding companies it is typically best to keep the structure simple as it is easier for an investor to manage, and allows for quicker due diligence by your lender's lawyer. It is therefore typically best to select Ordinary shares as the share type for the company. This means that each share gives the owner one "vote" per share. This prevents complicated share structure by having certain share types have more voting power than others. Having one vote per share simplifies the entire share structure.

### What Portico Invest Offers:

As our platform is built for scale, each of our company's structure is identical and easy to follow.

#### Should my companies' shareholders and directors be people or entities?

It is generally better when the shareholders and directors of companies formed to invest in BTL property are actual individuals, rather than entities such as trusts, LLPs or other companies.

The principal reason is that it is often the best BTL finance options will make this a condition of their offer.

# C What legal documents are required, and what do they mean?

## 1.) What is a Memorandum and Articles of Association?

The Articles of Association essentially write out the rules of the company, setting out how the company is run, governed and administered. They also spell out the powers and responsibilities of the directors.



### Potential Pitfall:

Although you can find memorandum and articles of association online, at times for free, you should make sure that the documents are well written, and that they are specific to your BTL company needs. This does not mean that the free ones won't work for you, but it is useful to amend these to reflect specifically what your company will be doing, for instance, specific to buy-to-let businesses.

### What Portico Invest Offers:

At Portico Invest, all our legal documents are of high quality and specific to BTL use-cases.



## 2.) Owner Loan Agreement

To provide the company with the funds it requires to purchase the property you will need a Director or Owner Loan Agreement. You will then be able to repay this loan over time as the company makes revenue.



### But how does this work?:

In the first instance, you as the owner of your company provide an interest free loan to your BTL company. This is usually equal to the value of your property when you make your initial purchase but can also include costs and expenses of the property purchase.

Then, as your company receives revenue from the rental income, the company is then able to make repayments to you on the loan it has benefitted from. The loan repayments are debt repayments and therefore do not form part of your income for tax purposes. You as the investor can then extract funds from the company tax-efficiently through loan repayment rather than only using dividends, which can be associated with higher tax rates for high income earners.

A Director's loan agreement essentially spells out how the previous procedure works in detail. It is also important to keep in mind that for some lenders, they may typically only want to provide a loan to BTL companies with one director loan per property.

It is often the case that for a shareholder's overall tax position, it is better if the shareholder debt is interest free. This is because not needing to pay interest on the directors loan will ultimately cause the value of the company and therefore the shares to be higher. The end result is that on eventual disposal of the shares the additional value will be taxed as a capital.

### Potential Pitfall:

Many investors assume that applying a high interest rate to a Director or owner loan is a profitable way of extracting profits from the company. However this is typically not the case as interest payments are taxed at income tax rates, and means that you can lose money rather than make more post-tax profit.

### What Portico Invest Offers:

Our loan documents have a 0% interest rate as they are designed for an individual or group of investors loaning the purchase price to their company, and are written specifically for BTL use cases.

### 3.) Shareholders' Agreement

Investors should look for a well written, and buy-to-let specific, shareholder's agreement to protect your rights in your investment going forward.

The shareholders' agreement sits alongside the Articles of Association. Its purpose is to protect the shareholders' investments in the company, to establish and maintain the relationship between the shareholders, and to govern how the company is run.

The shareholders' agreement lays out exactly how to do certain things and will set out how to resolve any dispute should the shareholders of the company have a disagreement. This is especially important if you are investing with family members or joint venture partners.

A good shareholder's agreement is vital for a property holding company and ensures that it is clear how decisions between shareholders are made about the property investment. No shareholders agreement or a badly drafted one could leave your rights and investment options unclear and lead to a challenging situation which is costly to resolve in the future.

The shareholders' agreement is private, which contrasts with the articles of association which are public. So investors tend to put commercial matters which they want to keep private in the shareholders' agreement.



#### Potential Pitfall:

A well-written shareholder's agreement is vital for protecting you and other shareholders, and can be a big driver for you maintaining strong ownership in the company.

#### What Portico Invest Offers:

At Portico Invest, all our legal documents are of high quality and specific to BTL use-cases.

# D The financial benefits of a BTL company

A UK Limited Company offers several financial advantages that can make it an appealing structure for business owners. One of the primary benefits is limited liability, which means the personal assets of the company's shareholders are protected from business debts or legal claims, reducing financial risk.

Additionally, operating through a Limited Company can provide tax efficiencies, as corporate tax rates in the UK are often lower than personal income tax rates, allowing owners to draw income strategically through a combination of salary and dividends, which are taxed at a lower rate.



## Example Investment:

Property value: £500,000

Gross rent: £20,000/year

Sold after 5 years

### Post-Tax Profit:

Personal ownership: £32,239

Limited company ownership (selling property): £39,173

(+22% higher)

## Tax Savings:

### Capital Gains Tax (CGT):

Personal ownership: 18%-28%

Limited company: 10%-20%

### Stamp Duty Land Tax (SDLT):

Personal ownership: Payable on the property

Limited company: No SDLT if transferring shares

Deductible mortgage interest under a company structure

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