

WHAT CAN I DO TO MAXIMISE THE TAX EFFICIENCY OF OPERATING MY COMPANY?

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Many property investors use a limited company, and may not be able to tax-efficiently take all of the company's profits out due to their personal income. This article looks at what options are available to company owners who have 'spare' profits and cash in their company, and who want to be tax-efficient.

I have excess funds in my company – how can I use these?

Many property investors operate a company, whether it be a company that owns rental properties or a letting agent company or a development company. It makes tax sense to have the company pay for as much expense as possible, so that the company gets a corporation tax deduction and the owner doesn't need to use their own taxed personal income to pay for the expense.

With the new (from 2024) corporation tax regime meaning that a company's 'Profit Before Tax' is taxed at 25% or more for profits above £50,000, it is more important than ever to be corporation tax-efficient.

A company can pay the expense directly from its own bank account, or the director can pay the cost, and either have the company reimburse the funds, or have the amount credited to the director's loan account. However, generally it's better to have the company pay the expense directly, as that removes any possibility that HMRC can argue the item is not a business expense.

For an expense to be 'valid' it must be 'wholly and exclusively incurred for the purposes of the business' – this means that the cost must actually be for the company's benefit in some way, and must also be 'reasonable' in terms of value (e.g. it wouldn't be in the company's interest to buy the director a gold Rolex!).



The main issue to avoid is creating a taxable 'benefit in kind' (BIK), which can mean that the tax cost of the company paying the expense can be more than the corporation tax saved! For this reason, we need to be careful to only have the company pay for expenses that do NOT create a BIK tax charge.

Use spare funds to buy new properties and/or pay down company debt

If a company has excess funds, these can be used as deposits for more properties owned by the company. In a company, all the mortgage interest payable is fully tax-deductible so all the usual benefits of using leverage (mortgages) to buy property apply. As the funds are not being extracted from the company, there is of course no tax charge to use the company's own funds to buy more property.

Or, once the desired portfolio size has been achieved, excess company funds can be used to make lump-sum mortgage repayments. For many older landlords, a smaller but debt-free property portfolio is the ultimate goal – for Higher Rate taxpayers, not extracting company profits and instead paying down debt tax-efficiently, is a great way to reach that goal.

Make pension contributions

The company can make a gross pension contribution of £60,000 per year per person, which is a tax-deductible expense for the company. The company can also use any unused pension contribution allowances for the previous three tax years, for each person, allowing for a greater contribution and tax saving.

Invest in the company's properties

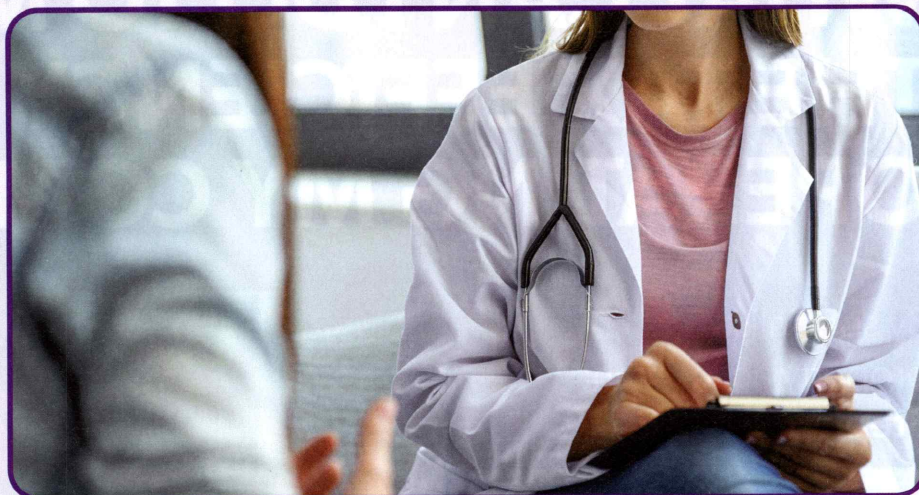
It's a rare property investor who hasn't got some repairs to spend money on! There are the usual very visible (to tenants) repairs, such as decorating, carpets, kitchens and bathrooms, which can alone add up to serious investment – but also the less noticeable investment into the fabric of the building itself, such as brickwork, pointing, roof, gutters and fascias, electrics, plumbing etc.

For properties that are planned to be held for the long-term, spending spare funds on protecting the building is usually money well spent, and usually pays for itself in terms of lack of future leaks, tenant complaints, voids, rental levels etc.

Pay for expenses that don't create a taxable Benefit In Kind

ANNUAL MEDICAL / HEALTH ASSESSMENT

A company can pay for an employee's annual medical assessment without a taxable BIK arising, and there is no specific limit on the cost of such a check-up. BUPA, for example, offer various medical assessments (such as their 'BUPA Enhance' scheme), which involve a full medical (blood pressure, cholesterol, liver and kidney function, ECG heart scan etc) plus general health review. Eye tests are also allowable business expenses that don't create a taxable BIK.



LIFE INSURANCE

A company can pay for a 'Relevant Life Policy' for an employee, and the premiums are tax-deductible but without the proceeds of any pay-out being taxable as company income. Usually such cover also includes diagnosis (by a medical doctor) of a terminal illness, with a pre-death pay-out. The policy can be 'written in trust' so that any pay-out falls outside of the employee's estate for Inheritance Tax purposes. There is no specific limit to the policy value for a Relevant Life Policy.

However, expenditure on travel and subsistence costs doesn't have to be no frills! For example:

- paying for first class train travel to allow for quiet working and relaxation
- choosing to stay in a hotel with a pool or gym, or that offers quiet rooms and better bed linen to aid sleep
- choosing to eat in healthier restaurants, even if more expensive

Even if these cost more than other options, so long as the overall spend is 'reasonable', the costs are allowable. In other words, it's fine to derive some incidental personal benefit from travel and subsistence expenditure – there is no need to live on rice and beans and stay in a hovel when travelling on business!

HOTELS, TRAVEL AND SUBSISTENCE

Travel and subsistence costs incurred for business are not treated as taxable BIKs for the employee. Travel generally means train / tube / bus fares, hotel stays, etc. Subsistence means 'reasonable' cost and quality food and drink – rather than luxury fine-dining!

TRIVIAL BENEFITS

Trivial benefits are low-value (<£50 each) gifts which are not deemed to be taxable by HMRC – such as flowers, occasional lunches, Xmas or leaving gifts etc. The gift must be genuinely a gift, and so not part of any contract of employment, not cash or vouchers. For a director of a 'close' company (a company with five or fewer shareholders), the maximum amount of trivial benefits allowed per tax year is £300.

STAFF ENTERTAINING / PARTY

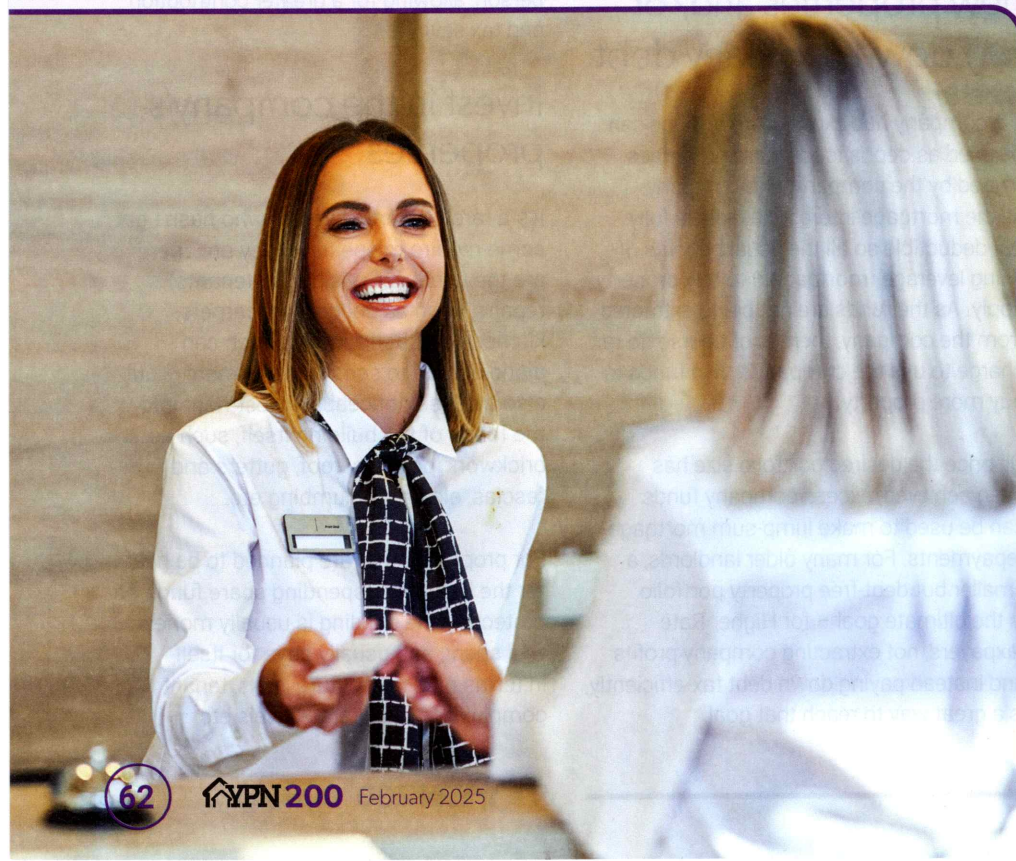
A company can pay for staff entertaining up to £150 per year – many people assume this means a night in the pub, but not necessarily! The staff "entertaining" could be a day in a spa or retreat of some kind, rather than involve alcohol. The £150/person limit is per year and so the total spend can be split across several events if required.

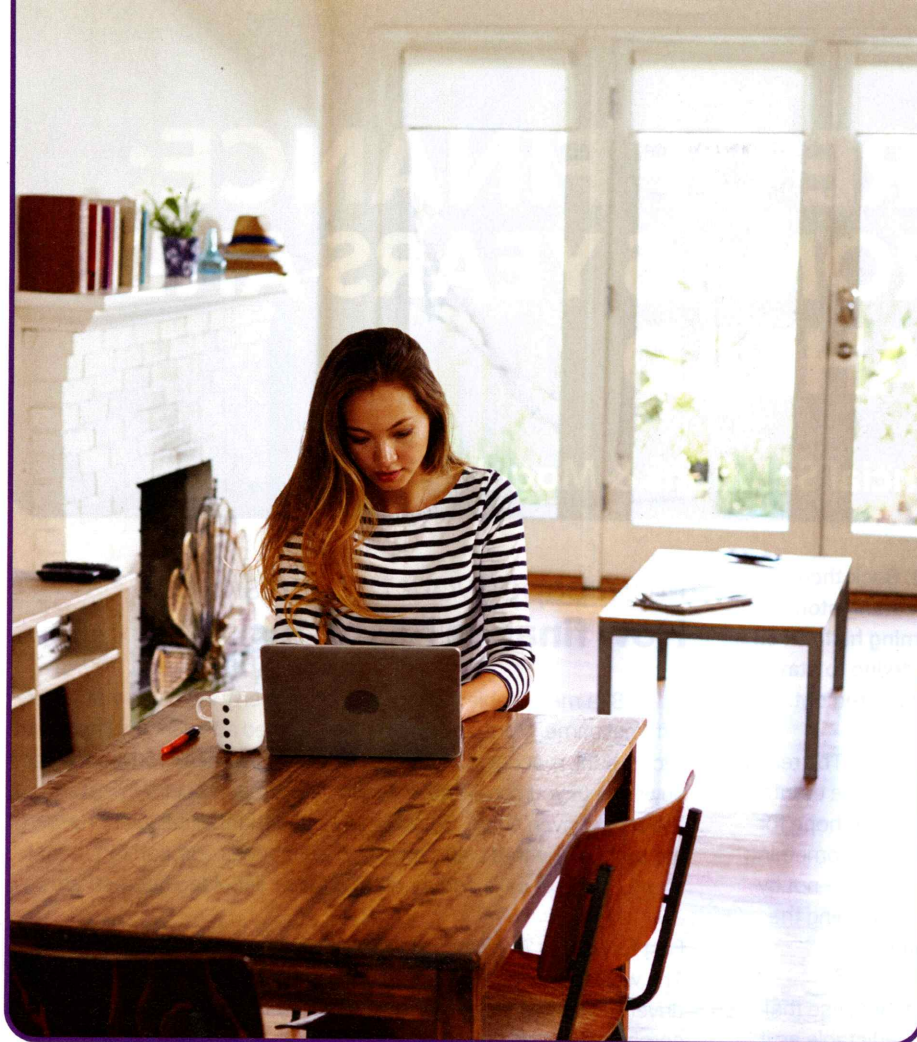
COMPUTERS, MOBILE PHONES, TABLETS... EVEN A COMPANY BIKE!

A company can pay for a decent mobile phone / computer / tablet (or all three!) for each director / employee.

A company can buy a bike for an employee without a taxable BIK arising – as long as the bike is used 50%+ for business use (no records are required to prove this though). The allowable cost includes the bike itself, plus equipment (helmet, lock, etc).

Like a company bicycle, for a phone to be a tax-free employee asset, it must be owned by the company and paid for by the company. Computers / phones / tablets / bikes don't have any specific maximum value so long as it could reasonably be claimed that the items are mainly for business purposes.





Working from home allowance

HMRC allow anyone who performs some of their work in their own home to claim an allowance of £6 per week (£312 per year). This is a deductible cost to the company, and can be paid to the director by the company tax-free. For larger claims, a calculation is required to summarise all the home costs (mortgage interest (or rent), utilities and council tax, insurance, building repairs).

Finally – some costs are never tax deductible for a company...

Generally, fines and penalties (e.g. parking fines, or Companies House / HMRC penalties) are disallowed for corporation tax purposes. An exception is HMRC interest charged on late payment of tax – this is allowable against taxable profits.

Business entertaining is also not a tax-deductible expense for a company, although the company can still pay such costs.

In summary...

Using a company is now a common way to invest in property, or manage property, especially following the 'Section 24' mortgage interest relief restriction.

However, for many property investors who use a company and have used up their in-credit directors loan account, paying 33.75% Higher Rate dividend tax on funds taken from the company isn't an attractive proposition! This article sets out a number of ways in which company owners can retain funds within their company, and pay costs using company funds, and so grow their overall wealth as a result.

It may well be that at some future point in life such company owners may revert back to being Basic Rate taxpayers, and so extracting company funds at that point becomes more tax-efficient. Or it may be that such investors decide that their personally-held portfolio profits are for day-to-day spending, and that their company is for long-term wealth-accumulation, perhaps with estate-planning and succession planning in mind.



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Pay salaries to family and friends

It is possible to involve family members, or friends / business partners, if those individuals do genuinely do some work for the company – such as: property management, refurb advice and monitoring, insurance and mortgages review, book-keeping and financial management etc.

A 'Lower Earnings Level' (2024/25: £6,396) salary can be paid to a person without the company needing a formal PAYE scheme.

Use the company's spare funds as your personal savings

Although dividends can't be permanently taken from a company without tax being paid, it is possible to run up a directors loan account 'debit' (overdraft) with a company, i.e. to borrow money from your company on a non-permanent basis.

'Non-permanent basis' means that the funds have to be repaid to the company within nine months of the company's year-end (not within nine months of having borrowed the

money). So, for example, borrowing money in July 2024 from a company with a year-end of 31st March 2025, would mean that the loan from the company needs to be repaid by 31st December 2025 to avoid a tax charge on the loan, i.e. the director has 17 months to repay the loan. (Note: some interest must be paid to the company to cover the 'Benefit-In-Kind' tax that would otherwise arise, but this is very minimal, usually 2% per annum).

Don't buy or lease a company car ... unless it's electric/ hybrid

A fairly common question is 'should I buy a company car' – the answer is almost always a resounding 'no!' The reason is that company cars are taxed on both the director AND the company, which often makes for a prohibitive tax bill, unless the car in question is either an electric or hybrid car, due to the much lower CO2 emissions.

In practice, most directors just own their car personally, and charge their company for business mileage at the HMRC-approved rate of 45p per mile for the first 10,000 business miles (25p per mile thereafter), which allows the company to claim a tax deduction for a car it doesn't own.