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Property Investment - Tax Aspects

Investment in property has been and continues to be a popular form of investment for many people. It is seen as a route by which:

- relatively secure capital gains can be made on eventual sale
- income returns can be generated throughout the period of ownership
- mortgage finance is covered in repayment terms by the security of the eventual sale of the property and in interest terms by the rental income.

Of course, the net returns in capital and income will depend on a host of factors. But on the basis that the investment appears to make commercial sense, what tax factors should you take into account?

This factsheet should be considered only in relation to a UK resident property owner.

Who or what should purchase the property?

An initial decision needs to be made whether to purchase the property:

- as an individual
- as a joint owner or via a partnership (often with a spouse)
- via a company.

There are significant differences in the tax effects of ownership by individuals or a company. Deciding on the best medium will depend on a number of factors. These include:

- if you already own a company
- expected drawings from the company
- whether you are expecting to invest in more property in the future
- whether you are expecting to sell individual properties piecemeal or as a portfolio in the future
- if you are mainly financing the initial purchases of the property from your own capital.

Initial purchase of the property

SDLT is payable by the purchaser of the property in England and Northern Ireland. Land and Buildings Transaction Tax is payable in Scotland and Land Transaction Tax is payable in Wales. The rates are dependent on the value of the property and whether it is residential or non-residential.

Purchase by company

Where residential property valued at more than £500,000 is purchased by a 'non natural person', broadly a company, there is a potential charge - the Annual Tax on Enveloped Dwellings (ATED). The ATED is payable by those purchasing and holding residential property through corporate envelopes, such as companies. In addition a higher rate of SDLT of 17% applies to the purchase.

There are exemptions from the higher rate of SDLT and the ATED charge; in particular, property companies letting out residential properties to third parties.

Ongoing rental

Rental income

For personally-owned property the net rental income is subject to income tax. Specific rules apply to split rental income for jointly owned properties and we can assist you with understanding these further.

In contrast, the net rental income for a company will be taxed at the corporation tax rate which may be lower than the income tax rates for an individual depending on the amount of rental and other sources of income. However there is frequently a further tax charge should you wish to extract any of the proceeds from the company.

The overall tax cost on income will therefore be partially dependent on how much of the income you wish to extract and how that income will be extracted e.g. salary, dividend, pension contribution etc. Where profits are retained by the company, the income may suffer less tax than if income tax applied. That means there are more funds available to buy more properties in the future.

Finance costs

Tax relief for finance costs on residential property held by an individual is limited to 20% as a basic rate income tax reducer.

This restriction does not apply to non-residential landlords nor to companies investing in residential or non-residential property.

Renting a commercial property to your own limited company

The personal purchase of new offices or other buildings and the charging of rent for the use of the buildings to your company may be tax efficient from an income tax position as:

- the rental you receive from the company allows sums to be extracted without National Insurance
- the company will be able to claim a corporate tax deduction for the rent
- finance costs are currently deductible from the rental income.

However, to the extent that rent is paid from the company, this may impact the availability of Business Asset Disposal Relief on a future disposal of the property (see below).

Disposal

Capital gains on the disposal of an asset are generally calculated by deducting the cost of the asset from the proceeds on disposal and reducing this by the annual exemption. Gains are treated as an individual's top slice of income and are generally taxed at 18% and 24% or a combination of the two. These rates apply regardless of whether the property is residential or non-residential (previously different rates applied to non-residential i.e. commercial property disposals).

Capital gains for companies will be subject to the rate of corporation tax applicable to the company i.e. 19% or 25%.

Business Asset Disposal Relief (BADR)

BADR is available on the disposal of trading businesses by individuals and therefore generally would not apply to property held by an individual as this would be considered investment activity.

However, where an individual owns a commercial property used by their trading business and the property is disposed of as part of a disposal of the business then the individual may benefit from the BADR rates (18% for 2026/27) on the disposal of the property as an 'associated disposal'. Relief is limited where the company pays rent on the property; BADR is not available where market value rent has been paid to the individual.

Care should also be taken around inserting an investment property into your trading company as this may result in your shareholding in that company not qualifying for BADR. You should consider whether another company should be formed to hold property to protect the trading status of the existing company.

Disposal of a property investment company

CGT will be due on the gain on disposal of the shares by the individual.

The disposal of shares may be more attractive to the purchaser of the properties rather than buying the properties directly, as they will only have 0.5% stamp duty to pay rather than the potentially higher sums of Stamp Duty Land Tax (SDLT) on the property purchases.

How we can help

This factsheet has concentrated on some of the tax factors to bear in mind when considering starting to invest in property.

You need to decide which is the best route to fit in with your objectives. We can help you to plan an appropriate course of action so please do contact us.

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