

Landlords Capital Account Restructure



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The following is an example of a strategy which might be applicable to landlords (private housing providers) who are considering the sale of their 'whole business' to a Limited Company in exchange for shares and using 'incorporation relief' under TCGA92/S162. This is becoming an increasingly popular topic of conversations between landlords and their professional advisers, due to the restrictions on finance cost relief to the basic rate of tax for individual landlords.

You will appreciate that there is never likely to be a 'one-size-fits-all' solution structure for landlords to operate within. However, this example serves to provide you with some insight into the level of creativity we might be able to share with you and your clients.

HMRC business income manual 45700 provides examples of how business owners can borrow money to withdraw up to the value of their capital account from their business. However, the cost of refinancing pre-incorporation and again upon incorporation is often cost prohibitive.

Our solution to this problem is to arrange bridging finance pre-incorporation, secured against solicitors undertakings.

The maximum level of funding is limited to the owners capital in the business, not the net equity in the business which may well be a significantly higher number. Equity in the business then matches the capital gain to be crystallised on completion of the business sale.

On incorporation, the bridging finance debt is novated to the company with the full consent of the lender and documented in the business sale agreement.

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Property118 Limited has an exclusive arrangement with a private bridging finance provider to facilitate such transactions, subject of course to underwriting and T&C's.

There are two opportunities which then arise at the point of the business sale.

First opportunity

Post incorporation, the funds released to the business owners are re-loaned by them to their Limited Company in the form of a Directors Loan Account. The company uses the injection of cash to repay the bridging finance novated to it, which satisfies the solicitors undertakings in regards to repayment of the bridging finance. The outcome is that the owners of the company now have a Directors Loan Account, which can be repaid from company net profits or net proceeds of fixed asset sales. This is often preferable to the business owners than rolling their own capital into share premium.

Second opportunity

The owners of the business might wish to use the capital they have extracted from the business pre-incorporation for personal reasons, e.g. to repay personal debt, to buy a larger house, to improve personal liquidity or to gift or buy luxury items such as a holiday home.

In such circumstances, the bridging finance is repaid from increased mortgage finance on completion of the business sale to the company.

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At the time of writing this article we have access to an exclusive Buy-to-Let mortgage product for Limited Company lending at an interest rate of 3.39% fixed for 5 years.

Our services

We do not pay referral fees and neither can we promise to send you reciprocal business. However, we can, and often do, help our introducing Accountants to improve client retention, client loyalty and to increase the volume of client referrals. Further, the restructuring we recommend often results in the introducing accountants being able to charge additional fees, which their clients are happy to pay as a result of the substantial savings they make.

We charge £400 for an initial landlord tax planning consultation process which includes:-

- Fact Find and satisfying HMRC's KYC requirements for anti-money-laundering compliance requirements
- Written report and recommendations including links to relevant HMRC manuals, legislation and case law where appropriate. This is prepared in conjunction with Cotswold Barristers who also comment on the legality of the suggestions and provide a quotation for any legal work associated with implementation of any recommended restructuring of the business. If instructed, Cotswold Barristers also adopt the recommendations made by Property118 Limited as their own professional advice.
- Video conference between the client, Cotswold Barristers, Property118 Limited and the introducing Accountant to serve as a Q&A session. Recording functionality is built into the software we use to enable all participants to retain a soft copy of the conference call.

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It is also important to note that in order to de-risk the entire consultation process from your own and the clients perspective, landlord tax planning consultations via Property118 Limited come with a guarantee of total satisfaction or a full refund.

Special offer for members of AccountingWEB

When you express an interest in our services, by clicking the link below, you will be provided with links to the following with our compliments:-

- A download link to the software we use in our initial client consultation process
- A link to a page to direct your clients to for the purpose of reading case studies, existing client testimonials (from landlords and their accountants) and further details of how your clients can book an initial 'risk free' consultation with us

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