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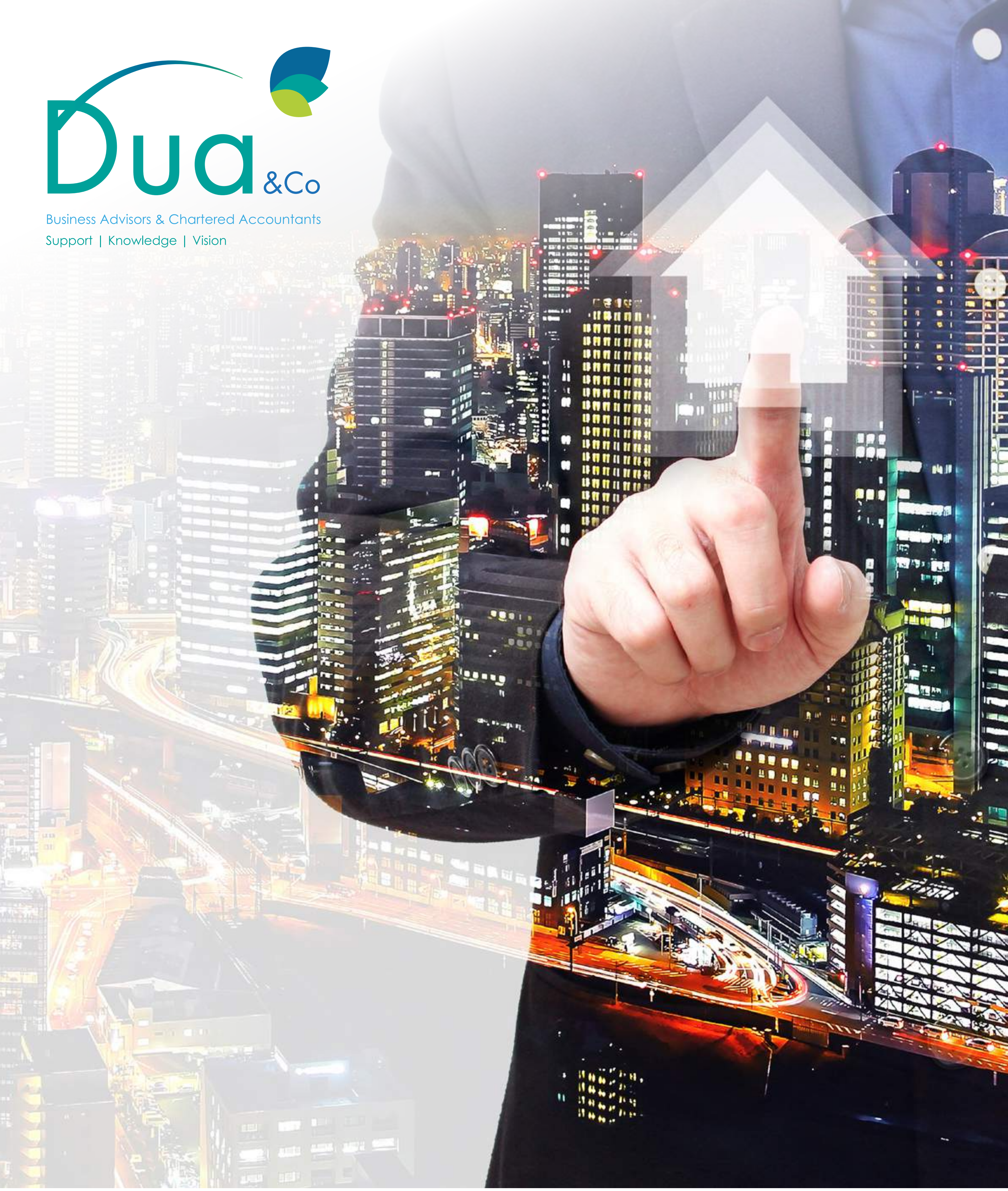

A Guide to Choosing the Right Structure for Your Property Investment

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The world of property is one that is fraught with its very own, distinct set of challenges, from the constantly changing landscape of tax legislation to the complexity of factors such as lending deals. Despite this, investing in property remains an attractive proposition for many, and with good reason. Property investments can be a particularly lucrative and rewarding avenue for investing, when handled correctly, and when all of the lingering uncertainties are resolved.

However, to ensure that your investment provides you with the benefits you were expecting, it is vital that you choose the right structure for it. Ask any expert in the field of property investment and they will tell you that this is one of the most common areas that potential investors are unsure about, and seek out professional help in order to clarify.

What are the options for structuring a property investment? And how should potential investors go about deciding on the correct setup for their objectives?

Your Structure Options

When you invest in property, your structure is all about finding the best possible vehicle for your investment. The two most common options are to invest as an individual or partnership, or to invest as the shareholder of a company.

- ***Investing as an Individual or Partnership***
  You have a number of options to choose from when you are purchasing the property in this way. The most straightforward path is the one whereby you purchase the property directly, as either an individual or as one member of a partnership. A third option, is to purchase property as a limited liability partnership – a setup in which you are essentially a partnership for the purposes of tax, but have an added extra layer of protection to guard against liabilities, similar to a company.

- ***Investing as a Company***
  Alternatively you can invest as the shareholder of a company that has been set up specifically for the purpose of property investment. This option has always been open to investors, but since 2015 there has been a significant increase in the number of people setting up limited companies specifically to invest in property. This has largely been due to changes to buy-to-let mortgage tax relief, which left some buy-to-let landlords worried that they would no longer get as good a return on their investment. Additionally landlords trading as individuals or partnerships whose total income is on the cusp of thresholds for higher rate tax, child benefit repayments and loss of personal allowances have found their income artificially inflated as a result of the cap on loan interest relief at 20%, and the rules around declaring this on your tax return. There are other ways to structure your investment, such as using a trust, but the ones outlined above are the most common, and the ones that will be focused on in greater detail throughout this guide.

Choosing Your Structure

Each of these different structures comes with its own distinct advantages, as well as potential challenges and pitfalls to be avoided. There is no single 'correct' structure and the most suitable one for your situation will largely depend upon a number of significant factors defined by your individual circumstances and strategy as an investor.

- ***Your Intentions and Objectives***

  Arguably the single most significant factor in your decision should be your intentions and objectives. What is it that you are hoping to achieve with your investment? Are you looking for a passive income that you can use as a pension pot, or are you looking for the first step in an ongoing process of actively building and diversifying a portfolio of many properties? Or are you simply investing to add-value and sell quickly - making a capital profit?

  Your answers to these questions should play a big part in your eventual decision-making process. For example, purchasing property as an individual gives you a simple, 'money-in-pocket' cash flow that is often more conducive to a property acting as a passive income. Investing through a company means receiving dividends or a salary from the company's profit, which is obviously a more complex arrangement.

  On the other hand, investing through a company can often be more tax efficient, as there is a flat corporation tax rate of 19%, rather than income tax rates, which can be up to 45%, and which are also dependent on other income sources. Therefore, this will usually be a useful option if you are planning on building up a more diverse property portfolio. Companies also offer a greater degree of flexibility in case of shared ownership. Investment in property through company structures also allows you to claim the full interest cost of funding the investment against the rental income. However, where you need the income from your investment, corporation tax plus dividends to take the income out of the company may work out to be more costly than owning the property as an individual.

- ***Your Eventual Exit***

  If you have a particular preferred exit in mind, this should also play a part in your decision. This is, of course, closely linked to the decisions you reach regarding your intentions. If you have one property acting as a passive income then an exit will be relatively simple – you just have to sell it. Don't forget to factor in the impact of Capital Gains Tax on any property you sell as an individual.

  If you've invested through a company, your exit may be more complicated, but you will also have more flexibility, including liquidating the company when you retire and reinvesting in other assets.

- ***Risks, Costs and Other Factors***

It's also important to consider hidden factors, such as your exposure to risk and any additional costs that may arise. Investing through companies is usually more tax efficient, but it can also come with added costs, such as those associated with borrowing or professional fees. Some mortgage providers are also less likely to provide residential property mortgages to a company than to an individual or partnership. Also through a company, lenders may often demand a personal guarantee, so there is still personal risk involved.

With any investment, there is an element of risk. You need to assess your attitude towards these risks when making an investment – are you comfortable investing in a high return property in a far off location and relying on managing agents or would you prefer a lower yielding property on your doorstep? What is the economic climate of the area you're investing in? Is a house or a flat a better investment in terms of risk management? There is no right answer – the solution can vary for each investor and within an investor's portfolio, there will be differing levels of risk attached to each of their investments.

It is therefore especially important to seek professional input from experts in the field of property before making any firm decision. They can review the merits of any investment you are considering and also be able to help choose the structure that best meets your aims and objectives. It is imperative that you have the correct foundations in place to begin building the portfolio that helps you to meet your financial objectives and an investment in an expert from the outset may be the best decision you make. With over 25 years' experience in the property industry, Dua & Co help you determine your strategy to put you in control to achieve your business and personal goals. Get in touch today – we'd be delighted to help – Our Knowledge Is Your Power.

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