The pros and cons of incorporating your property portfolio

By incorporating a property portfolio, investors can potentially reduce their tax bills, take advantage of business tax treatment, and plan more effectively for the future. However, there are some downsides to incorporation. This factsheet gives an overview of the pros and cons involved from a tax perspective.

Income tax vs corporation tax

Rental income received by an individual is added to their other income and taxed at their marginal income tax rate (which for higher earners is 40% or even 45%). In contrast, profits in a company are subject to Corporation Tax – currently 19% for small profits, up to 25% for larger profits (as of April 2025).

It's important to note that the tax advantage exists at the company level. If you want to draw the profits out for personal use, you'll then pay personal tax (at dividend tax rates) on those withdrawals.

Whether or not you will save tax overall depends on a range of factors including the portfolio's overall profits and your marginal rate of income tax.

One strategy is to retain profits in the company, deferring any income tax liability. You might choose to take dividends in years when your other income is low or spread dividends over time to stay in lower tax bands. Or you might retain profits until retirement, using them to fund a future income when you stop other work.

Mortgage interest deductibility

Restrictions applicable to dwelling-related loan interest and associated finance costs were introduced in 2017, meaning individual buy-to-let owners can only claim a basic-rate tax credit (20%) on their finance interest, rather than deducting it as an expense. This means higher-rate taxpayers effectively pay tax on part of their mortgage interest.

Limited companies are not subject to the restriction. When you hold property in a company, the mortgage interest is treated as a business expense, and it can be deducted in full against rental income before calculating taxable profit

Inheritance Tax planning opportunities

Using a company can also open up inheritance tax (IHT) planning opportunities for landlords who want to pass their property wealth to the next generation. If you own properties personally, it can be complicated and costly (in terms of IHT and Capital Gains Tax) to transfer bits of property to your children or other heirs during your lifetime. However, with a company, you have much more flexibility in transferring ownership gradually by way of shares.

Potential drawbacks of incorporating

In addition to the potential double tax charge that amasses when a property is owned through a limited company and profits or gains are then extracted by shareholders, there are some other drawbacks to incorporation.

Upfront Transfer Costs (Stamp Duty and CGT)

Typically, you will need to 'sell' your properties to the new company, which would trigger both Stamp Duty Land Tax (SDLT) and Capital Gains Tax (CGT) charges. It's essential to calculate these costs to see if the long-term tax savings justify the immediate tax payable.

Ongoing Compliance and Administration

You'll need to file annual accounts and confirmation statements at Companies House and submit Corporation Tax returns to HMRC. If you pay yourself a salary or take dividends, there are additional reporting requirements (PAYE payroll filings, dividend documentation, etc.). In short, there is more administrative work involved than there is in declaring rental income on a personal Self-Assessment.

Mortgage Availability and Costs:

Generally, the costs involved in a limited company obtaining finance are higher than those for individuals.

This document has been prepared for information purposes and does not constitute advice. All information deemed correct as at 22 October 2025