

Dear Delia Mr Stark is interested in acquiring a buy-to-let property using a company to make the purchase but he doesn't know how to set up the company. Also, every lender he has gone to talks about rental coverage. How does he go about setting up such a company, what does rental coverage mean and why is it so important to lenders? **DELIA SAYS:** This is a sensible way to purchase a buy-to-let property. Here to offer their expertise are Tim Henson at All Types of Mortgages and Robert Lankey from Norwich and Peterborough.

Have you got a problem for Delia? Email mortgage.strategy@centaur.co.uk

INTERMEDIARY RESPONSE



Tim Henson is compliance director at All Types of Mortgages

Purchasing a buy-to-let property via a company is fairly straightforward but Mr Stark will need a solicitor.

A limited company is a legal entity with memoranda and articles of association that reserve the right to hold property and allow mortgages. An off-the-shelf limited company can be bought via a solicitor or accountant for a few hundred pounds.

There are certain tax advantages to purchasing a property within a limited company. Taking out a buy-to-let mortgage under a limited company is almost the same as if you were making a mortgage application in your own name. A 15% deposit is usually required and rental income would be assessed at either 125% or 130% cover to ensure the loan will be adequately covered during rental voids.

The only real difference in the process is that each director of the limited company will have to be prepared to sign a personal guarantee and to act as guarantors on the mortgage. The limited company would be responsible for setting up the assured short hold tenancy

and dealing with the main tenancy charges.

Individuals who purchase in their own name potentially diminish their profitability, even taking into consideration the setting up costs of a limited company.

For example, if an individual purchased a buy-to-let property and then decided to sell, they would be liable for Capital Gains Tax of up to 40%. However, if the property was set up in a limited company's name, Corporation Tax would be applicable and this is lower than CGT. But a careful examination of the tax situation of all individuals involved is a must and I recommend professional advice regarding this.

Rental coverage is the way lenders justify affordability on buy-to-let purchases. If standard income multiples of three or four times income were applied, in most cases the amount an individual could raise would be insufficient for the mortgage required – particularly if the individual owns a residential property with a mortgage.

Buy-to-let lenders usually work out their rental coverage on either the pay rate or the rate the mortgage would revert to, so on a loan of £100,000 where the pay rate is 5.75% (assuming a rental calculation of 130%) they would need to see at least £622 a month in rent.