



**A Contractors Guide to
Special-Purpose Vehicle
(SPV) Companies**

**Accountants
Experts for Experts**



A Contractors Guide to SPV Companies

Introduction



Churchill Knight & Associates Ltd is not like any other contractor accountant. The business was started in 1998 by John Payne and his wife Louise. John was an IT contractor who decided to start a specialist contractor accountancy and umbrella service because there were no contractor focused providers available. Since the first day of operation, John and Louise have remained partners and owners of Churchill Knight, making us a family run business created by a contractor, specifically for contractors.

Our Clients

Typically, our clients work in the following sectors:

- 1) Accountancy
- 2) Architecture, Engineering or Surveying
- 3) Construction
- 4) Designers
- 5) Financial services and banking
- 6) IT
- 7) Legal
- 8) Logistics
- 9) Management consultancy
- 10) Marketing and PR
- 11) Medical
- 12) Social work

Comprehensive Services

Since 1998, Churchill Knight has helped over 20,000 contractors legally maximise their take home pay in full compliance with HM Revenue & Customs (HMRC) and UK tax legislation.

Our comprehensive services include contractor accountancy, PAYE umbrella, CIS limited and sole trader, a dedicated personal tax service and accountancy for small businesses.

If you would like to discuss your personal requirements, please call us on **01707 871622**.



What is a Special-Purpose Vehicle Company?

A Special-Purpose-Vehicle (SPV) company is a limited company which is set up for the sole purpose of purchasing property and property management for buy-to-let activities. A SPV may hold one or more properties under its name to rent out each month. A SPV company is seen as a 'bankruptcy-remote entity' because the company has its own legal status, assets and liabilities. As its operations are limited to the financing and acquisition of specific assets, SPV's can help companies to isolate and securitise assets, create joint ventures and perform other financial transactions. This guide will give you a better understanding of what a SPV company is, why it should be set up before you buy the property and how our SPV service works.

How does a Special-Purpose Vehicle Company work?

Usually, when you invest in a property, the buy to let mortgage is in your own name. When you buy a property through a SPV limited company (a small business set up in your name), the company owns the property instead of you. Therefore, the mortgage is taken out in the company's name. You pay money into the SPV company, which can be used as a deposit for properties; a limited company buy-to-let mortgage can be used to cover the rest of the property's price.





The advantages of using a Special-Purpose Vehicle Company

We've compiled a short overview of the advantages of using a SPV company to help you determine whether you should use one.

Advantages of buying property through a Special-Purpose Vehicle Company:

- Buy-to-let lenders which offer mortgages to corporate vehicles mostly prefer SPVs to trading limited companies because they are easier to understand and quicker to underwrite.
- Normal buy-to-lets are taxed as part of your personal income which means you will pay Capital Gains Tax (CGT) on the income you make from the rent. Whereas with a limited company buy-to-let, you will pay Corporation Tax instead. This could work out cheaper for some investors as Corporation Tax is charged at 19%.
- You can reduce your potential Income Tax liability as you are able to control how much income is taken out of the company, or you can leave it in the SPV if it is not needed.
- It is possible to grow your buy-to-let portfolio quickly through a SPV limited company as there is no Income Tax due on the retained profit, giving you more capital to re-invest.
- As the company owns the property it is relatively easy to change the shareholders. This is very useful if you plan to gift property to a family member and it could help the beneficiaries save money on Inheritance Tax. All you need to do is add the beneficiaries as shareholders.
- HMRC has committed to phasing out the ability to put through mortgage interest as an expense when operating as a sole trader. This is not the case with the SPV model and there is currently no plan for it to be phased out. On top of the mortgage interest, you will also be able to claim tax relief on repairs and service charges.
- If you purchase property through an existing company it will mean you lose the benefit of closing that company down via a Members Voluntary Liquidation (MVL) and withdrawing the retained profits tax efficiently. However, if you purchase property through a SPV you are able to keep it as a separate entity from any existing company's and will not lose the benefit of closing the existing company down via an MVL.



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- You can use the same SPV company for multiple properties which allows you to build a portfolio within one entity, and will reduce admin and ongoing costs.
- If you make a personal investment into the SPV limited company it is possible to draw your investment back out of the SPV in the form of a director's loan. Directors' loans can get very complicated very quickly; always seek the advice of a contractor accountant to help you make an informed decision. Read our blog to find out more.
- Isolated financial risks as the SPV operates as its own entity.
- Direct ownership of a specific asset.





The disadvantages of using a Special-Purpose Vehicle Company

Whilst there are many advantages to buying property through a SPV company, unfortunately, there are a few disadvantages as well.

Disadvantages of buying property through a Special-Purpose Vehicle Company:

- SPV limited company buy-to-let mortgages can cost more than normal buy-to-let mortgages. This is because interest rates are often higher and lenders sometimes charge more to cover the extra paperwork.
- Some lenders may require a personal guarantee from the directors of the SPV limited company, so if the mortgage is not fully re-paid you (and any other shareholders) may be liable for the debt.
- If you want to transfer existing properties into the company you could be liable to pay Stamp Duty Land Tax, Legal Costs, Higher Rate Tax brackets and potentially Capital Gains Tax.
- When a company sells a property there is no Capital Gains Allowance, whereas an individual selling a property would have a £12,300 tax-free allowance (2020/21).
- Reduced lender choice as there are not many lenders who offer SPV limited company buy-to-let mortgages.
- If you want to draw all the rental profits as income, Corporation Tax is applicable at 19% and then the director will pay either 7.5% (basic rate) or 32.5% (higher rate) Dividend Tax.



Why should you set up a Special-Purpose Vehicle Company before buying the property?

If you buy a property without a SPV then you will have to buy it in your own name and pay Stamp Duty. If you then set up a SPV company you would have to effectively sell the property to the SPV and then pay Stamp Duty again. Therefore, it is advisable to set up the SPV company before you purchase a property.

You will receive better mortgage rates from lenders who prefer SPV limited companies to trading limited companies as they are quicker to underwrite and easier to understand.

You will need to set the company up before the mortgage begins. However, you can apply for the mortgage before you set up the company. There is also no minimum time that your SPV limited company has to be trading for before the mortgage begins.





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Benefits of using Churchill Knight & Associates Ltd

Churchill Knight has over 20 years of industry experience so you can rest assured that we are 100% compliant with all of HMRC's regulations. Churchill Knight works alongside industry leading cloud-based software providers (FreeAgent). Your FreeAgent account will give you 24/7 access and real-time information about your SPV business finances via your own business portal. Your dedicated account manager will be happy to answer any questions you may have about SPV's and will give you expert advice throughout your time with us.



Contact us for more information

Give our team a call today on 01707 871622 to discuss how we could help you set up and manage your SPV limited company. We can offer you tailored tax planning advice to ensure you get the most out of your SPV.

- ☎ 01707 871622
- @ enquiry@churchill-knight.co.uk
- 🌐 www.churchill-knight.co.uk

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