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GET GROUND

BTL Limited Company Setup: Your Complete Guide

GetGround Team January 20, 2025 12 min read

Join a growing trend in property investment. In 2024 the number of buy-to-let companies created increased by 35% year on year.
Source: Companies House, The Land Registry

This sharp increase has primarily been driven by better technology allowing for companies to be created at a more affordable cost, and legal changes which can make taxes more efficient when properties are held in a company as opposed to a personal name.

While company buy-to-let has become the standard way to invest in property, most investors do not set up their limited companies correctly to maximise on their potential investment returns.

The advantages of investing through companies are determined by the way the company is structured, the quality of its legal documentation, and the continuous management of that company. Here, we provide an overview to help you navigate the sometimes complicated or seemingly long-winded process of forming and managing companies for property investment to ensure that you're getting the absolute maximum benefit from them. This document should only serve as an information guide. Should you have any concerns or questions about your specific circumstances, please make sure to consult your advisor before forming or structuring your limited company.

Across this document we'll cover:

- The key building blocks of a company and frequently asked questions
- The differences between 'shareholders' and 'directors' and the optimal way to structure shares in your company

The legal documents required to run a company

A. Introducing the key building blocks of a buy-to-let company

1) What's a 'Standard Industrial Classification (SIC) Code', why do I need one and where do I find it?

When you form a company, Companies House, or any formation agent, will always ask you what the Standard Industrial Classification (SIC) code of your company is. This essentially tells Companies House what type of company you are running. For instance, running a medical practice, or a buy-to-let company.

Potential pitfall:
In order for you to secure mortgage lending on your properties, it is important that you have the correct technical information in place for your company. If you do not have the correct technical information, you may limit the pool of lenders who will be happy to give you a mortgage, or delay the process further. Your lender may want to ensure that the company is set up for the sole purpose of holding investment property in order to approve financing for a purchase.

Solution:
For companies holding properties, it is typically best to ensure that the SIC code is 68209. You can simply do this by specifying it at Companies House or with a formation agent.

What GetGround offers:
If you work with GetGround, this will automatically be done. It is also

best that your company has limited activities. That is, the company only carries out property business specific to buy-to-let property and no other businesses. All companies at GetGround have the SIC code 68209.

2) What business account should I use?

In order to qualify for a mortgage for your buy-to-let investment through a limited company, you will be required by your lender to have a business account that is compatible with the mortgage lender's requirements.

Potential pitfall:
A business account that you hold in your personal name will not be acceptable.

Solution:
Having a business account will considerably help with your mortgage lender's requirements. They also benefit your company by allowing you to keep track of all money that enters and leaves your properties, such as mortgage payments, rental incomes, and all other related activities in one consolidated place. In order for the business account to be compatible, make sure your account has features such as:

- A UK sort code
- A UK account number
- Direct Debit functionality
- Ability to accept different payment types such as CHAPS, BACS, and Faster Payments

And an IBAN and BIC for those based overseas

What GetGround offers:
GetGround provides a suitable business account for every new company formed on its platform.

3) Why do I need a registered office address?

A UK company is required to have a registered office address in the UK, so that any company-related mail and documents can be sent to company directors.

Potential pitfall:
Using your home address as your company's registered office allows anyone to know where you live, as your address will be detailed next to your name on Companies House. Individuals or companies can therefore send unsolicited mail to you, or contact you directly at your home address.

Solution:
In order to maintain your privacy and overall security, it is best to use a service that provides a registered office as part of their overall offering in turn allowing you to receive all company related mail safely and hassle-free.

What GetGround offers:
At GetGround, we ensure that every new company has a registered office address in the UK that is separate from the company owner's home address. All post is scanned and uploaded to the platform, and we will alert you when that post has been received.

B. Shareholders and directors, and share structures

1) What is a shareholder?

A shareholder is essentially an individual who owns shares in the company and as such may receive company profits via dividends. UK companies require there to be at least one shareholder in the company. A shareholder can own all of the shares in the company. Alternatively, shares can be shared equally or unequally between two or more shareholders. For example, let's assume a company has 4 ordinary shares. One shareholder owns 1 share, and another owns 3 shares. Each will then respectively own 25% and 75% of the company. Being a shareholder typically means that you have voting rights and influence over the running of the company. You may also be paid dividends from company profits which is usually based on the % shareholding you have. For example, a shareholder that has 3 shares out of 4 in a company is typically entitled to 75% of the dividends.

Potential pitfall:
Make sure you determine early who you want your shareholders in your company to be. Although adding shareholders to your company later is a relatively straightforward process, it can cost time and legal fees to do so properly.

What GetGround offers:
We offer a fully digital platform for our clients to easily add and remove shareholders. All of the back-end processes are automated through

our technology.

2) What is a director?

A director has legal responsibility for the running of the company. It is a legal requirement that your company has at least one director in it. Most often, a director is also a shareholder, but not all shareholders will be directors.

Potential pitfall:
Directors have a number of legal duties such as exercising care, skill, and diligence in the running of the company. They also have a number of administrative duties, such as the filing of company accounts on time. They can face substantial penalties if they do not carry out their duties correctly.

Solution:
It is wise to use a specialist provider of buy-to-let company management services to not only set up and structure the company but also to manage the ongoing financial and secretarial administration of the company. This saves considerable time and money - through our survey, on average landlords with no company management service provider spend anywhere between 2-7 days a month managing their company.

What GetGround offers:
As part of your monthly fee, GetGround offers our clients comprehensive digital company management services which includes accounting and tax returns.

3) What's the best share structure for my buy-to-let company?

There are different types of shares that a company can be made up of, such as Ordinary shares and Alphabet shares, amongst others.

For companies holding properties it is typically best to keep the structure simple as it is easier for an investor to manage, and allows for quicker due diligence by your lender's lawyer. It is therefore typically best to select Ordinary shares as the share type for the company. This means that each share gives the owner one "vote" per share. This prevents complicated share structures by having certain share types have more voting power than others. Having one vote per share simplifies the entire share structure.

What GetGround offers:
As our platform is built for scale, each of our company's structures is identical and easy to follow.

Should my company's shareholders and directors be people or entities?

It is better when the shareholders and directors of companies formed to invest in buy-to-let property are actual individuals, rather than entities such as trusts, LLPs or other companies. The principal reason is that often the best buy-to-let finance options will make this a condition of their offer. As such, all GetGround companies have individuals as shareholders and directors.

C. What legal documents are required, and what do they mean?

1) What are Articles of Association?

The Articles of Association essentially write out the rules of the company, setting out how the company is run, governed, and administered.

They also spell out the powers and responsibilities of the directors.

Potential pitfall:
Although you can find Articles of Association online, at times for free, you should make sure that the documents are well-written, and that they are specific to your buy-to-let company needs. This does not mean that the free ones won't work for you, but it is useful to amend these to reflect specifically what your company will be doing, for instance, specific to buy-to-let businesses.

What GetGround offers:
At GetGround, all our legal documents are of high quality and specific to buy-to-let companies.

2) Owner's Loan Agreement

To provide the company with the funds it requires to purchase the property you will need an Owner's Loan Agreement. You will then be able to repay this loan over time as the company makes revenue.

But how does this work?

In the first instance, you as the owner of your company provide an interest-free loan to your buy-to-let company. This is usually equal to the value of your property when you make your initial purchase but can also include the costs and expenses of the property purchase.

Then, as your company receives revenue from rental income, the company is then able to make repayments to you on the loan it has benefitted from. The loan repayments are debt repayments and therefore do not form part of your income for tax purposes. You as the investor can then extract funds from the company tax-efficiently through loan repayments rather than only using dividends, which can be associated with higher tax rates for high-income earners.

An Owner's Loan Agreement essentially outlines how the previous procedure works in detail.

It is often the case that the shareholder debt being interest-free is better for the shareholder's overall tax position. This is because not needing to pay interest on the Owner's loan will ultimately cause the value of the company and therefore the shares to be higher. The end result is that on the eventual disposal of the shares the additional value will be taxed as capital gain, rather than as interest income.

Potential pitfall:
Many investors assume that applying a high interest rate to an Owner's loan is a profitable way of extracting profits from the company. However, this is typically not the case as interest payments are taxed at income tax rates, and means that you can lose money rather than make more post-tax profit.

What GetGround offers:
Our loan documents have a 0% interest rate as they are designed for an individual or group of investors loaning the purchase price to their company, and are written specifically for buy-to-let companies.

3) Shareholders' Agreement

Investors should look for a well-written, and buy-to-let specific, shareholders' agreement to protect your rights in your investment going forward.

The shareholders' agreement sits alongside the Articles of Association. Its purpose is to protect the shareholders' investments in the company, to establish and maintain the relationship between the shareholders, and to govern how the company is run.

The shareholders' agreement lays out exactly how to do certain things and will set out how to resolve any dispute should the shareholders of the company have a disagreement. This is especially important if you are investing with family members or joint venture partners.

A good shareholders' agreement is vital for a company holding property and ensures that it is clear how decisions between shareholders are made about the property investment. No shareholders' agreement or a badly drafted one could leave your rights and investment options unclear and lead to a challenging situation which is costly to resolve in the future.

The shareholders' agreement is private, which contrasts with the Articles of Association which are public. So investors tend to put commercial matters which they want to keep private in the shareholders' agreement.

Potential pitfall:
A well-written shareholders' agreement is vital for protecting you and other shareholders, and can be a big driver for you maintaining strong ownership in the Company.

What GetGround offers:
At GetGround, all our legal documents are of high quality and specific to buy-to-let companies. Join over 30,000 GetGround customers already benefiting from buy-to-let, done better.

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