

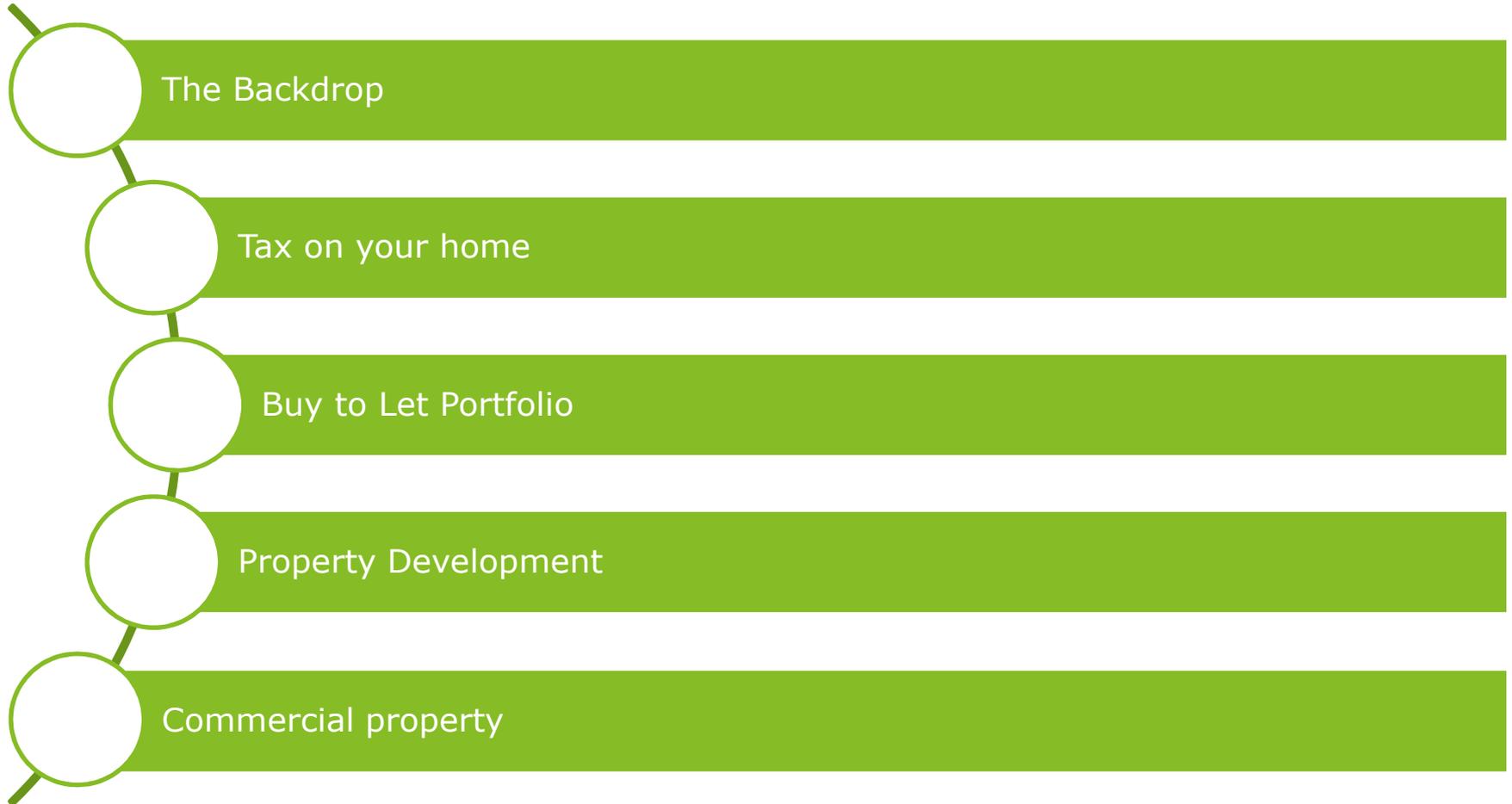


Everything you need to know about Tax and Property but were too afraid to ask

Emma Reilly
Associate Director

28 June 2019

Agenda



The Backdrop

Buy-to-let squeeze fuels surge in capital gains tax bills as landlords sell up - Independent June 2019

Expat landlords are declaring rental income to HMRC for the first time – will you be caught out? – Independent June 2019

How would Labours tax grab affect your home? Spectator June 2019

HMRC announces crackdown on property tax dodgers- Property Reporter March 2016

New survey reveals that UK landlords are struggling to keep up with recent reforms property reporter June 2019

Stamp duty is a mess': why thousands are being forced to pay over the odds in property

What taxes do I pay on UK property?

Income Tax

ATED

Capital Gains
Tax

VAT

IHT

Corporation
Tax

Council
Tax/Business
Rates

SDLT

Do I pay tax on my main residence?

- What taxes are due when I buy my house?
- Am I entitled to any reliefs?
- What happens when I sell my house?
- Is my house taxed when I die?

Buy To Let Portfolio held personally

How am I taxed?

- What taxes are due when I purchase a buy to let?
- How is my taxable profit calculated?
- What are the tax changes and how does this impact my take home profit?
- What tax do I pay when I sell my property?
- What can I do to save tax on my buy to let portfolio?
- Can I gift properties to family members?
- What if I move abroad?

Finance cost restrictions

Example 1 – Unrestricted tax reducer

John lives in England and earns a salary of £40,000 pa. He receives rent of £14,000 pa and pays interest of £12,000 pa (no other costs). Assuming a higher rate threshold of £45,000 in 2017/18, £46,350 in 2018/19 and £50,000 thereafter, the tax on his rental income is as follows.

	2017/18	2018/19	2019/20	2020/21
Basic rate band available	5,000	6,350	10,000	10,000
Rent	14,000	14,000	14,000	14,000
Interest allowed	(9,000)	(6,000)	(3,000)	-
Adjusted profit	5,000	8,000	11,000	14,000
Tax at 20%	1,000	1,270	2,000	2,000
Tax at 40%	-	660	400	1,600
	1,000	1,930	2,400	3,600
Basic rate reducer	(600)	(1,200)	(1,800)	(2,400)
Net tax liability	400	730	600	1,530
Effective tax rate *	20%	37%	30%	77%

*May be higher in 2019/20 and 2020/21 if child benefit is claimed - £50K threshold breached

Should Incorporate my buy to let business?

Incorporation relief can apply to a property business

- All of the assets of the business must be transferred in exchange, wholly or partly, for shares in the company
- Degree of activity required (passive investment may not be a business)
- Transfer must be as a going concern
- Assets rebased and gain rolled into base cost of shares

Stamp Duty Land Tax

- Generally, SDLT will apply to the value of the properties transferred
- Relief may be available on the incorporation of a partnership property business (N.B. mere joint ownership is not a property partnership)
- Potential non-residential rates for transfers of 6 or more dwellings

Corporate v Personal Ownership

Overview of ownership via UK resident company

Advantages of company

- Full deduction for finance costs
- Lower tax rates on profits (19% CT – dropping to 17% in 2020/21)
- Dividends may be tax-free if within recipient's dividend allowance
- Capital gains taxed at CT rates
- Retained profits not counted towards shareholders' income for PA taper, HICBC etc.
- Succession planning
- Business investment relief

Disadvantages of company

- No personal allowance
- No CGT annual exemption
- Double layer of taxation on dividends and capital gains
- No PRR/letting relief (e.g. on former main residence)
- No cash basis
- ATED/BIK?
- Higher SDLT compared to sole residential property of an individual
- Administrative burden

Property Development

- Is property development different from rental from a tax perspective?
- What taxes will I pay on development activity?
- What structure is best from a tax perspective?

Commercial Property

- How am I taxed on commercial property?
- What allowances am I entitled to?
- What about VAT?

QUESTIONS?



This is an internal document which provides confidential advice and guidance to partners and staff of Deloitte LLP and its subsidiaries. It is not to be copied or made available to any other party.

© 2019 Deloitte LLP. All rights reserved.