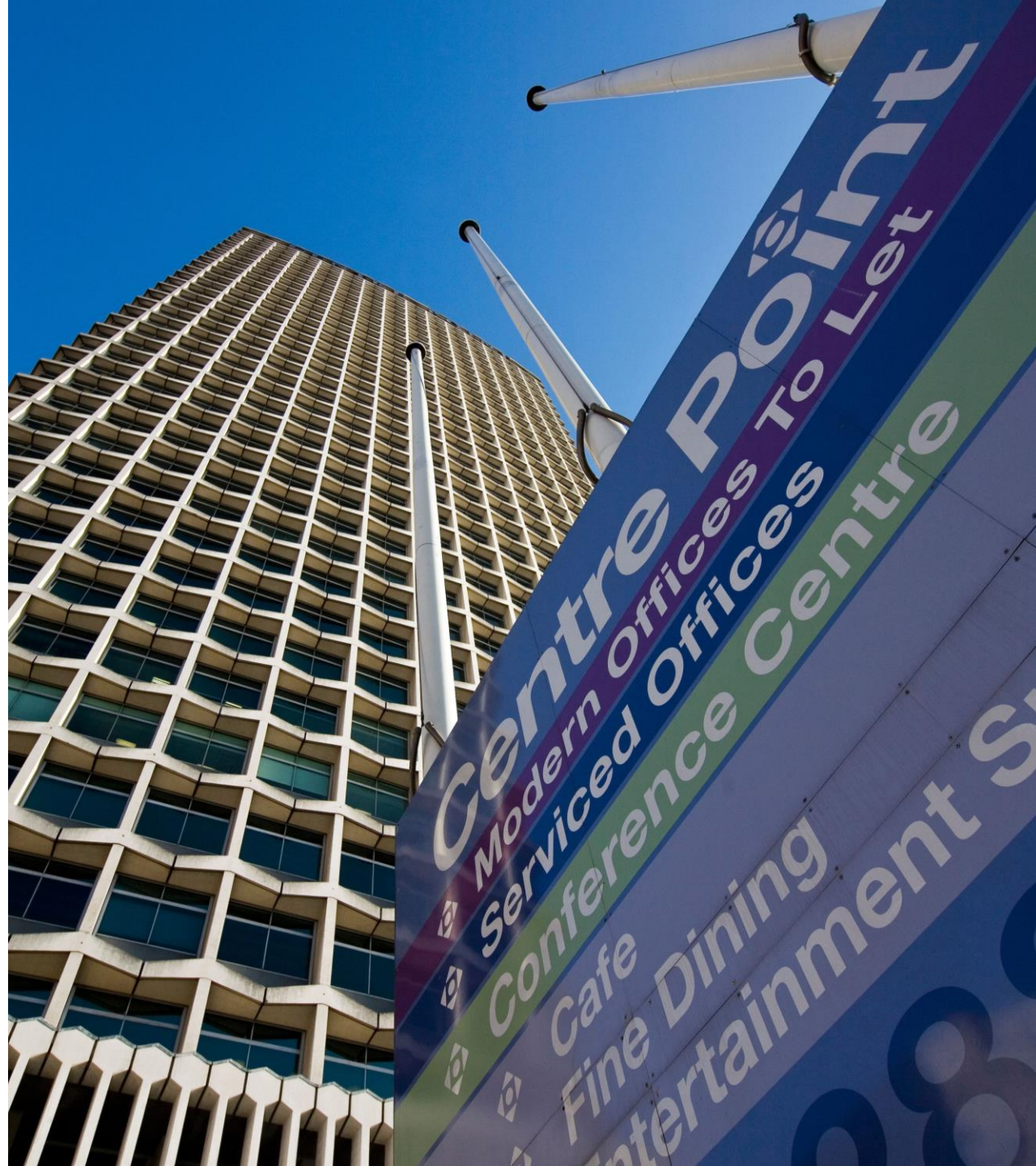


**Deloitte.**

Property  
Business  
Incorporations

August 2016



# Property Business Incorporations

## Changes to personal taxation

### *Financing costs*

- It was previously announced that full relief for financing costs paid in respect of let residential property will be gradually replaced with a deduction of **20%** of the amount paid.
- In particular, this applies to **mortgage interest**.
- The change will be phased in from **6 April 2017**, and will apply in full from 6 April 2020.
- In some circumstances, as full relief will be unavailable, the tax liability on rental income could exceed the economic profit.
- This may be particularly pertinent to trustees of IIP trusts, as trustees could in effect need to use capital to subsidise the increased tax liability.

# Property Business Incorporations

## Changes to personal taxation

### ***Wear and tear allowance***

- Wear and tear allowance allows (broadly) a 10% deduction from gross rents where furnished properties are let, regardless of expenditure.
- Wear and tear allowance has been abolished with effect from 6 April 2016 for individuals and 1 April 2016 for companies.
- It has been replaced with a deduction based on costs incurred on replacing furniture, appliances and kitchenware.
- The new relief applies to **part** and **unfurnished** residential properties, in addition to **furnished** properties.
- The new relief will increase administration required by landlords.
- We are advising clients to maintain appropriate records of expenditure.

# Property Business Incorporations

## Comparison of effective tax rates on property businesses

	Personal Ownership	Limited Company	
		All profits extracted	25% of profits extracted
2016/17	45.0%	48.5%	25.7%
2017/18	46.8%	47.9%	24.8%
2018/19	48.7%	47.9%	24.8%
2019/20	50.5%	47.9%	24.8%
2020/21	52.4%	46.7%	23.0%

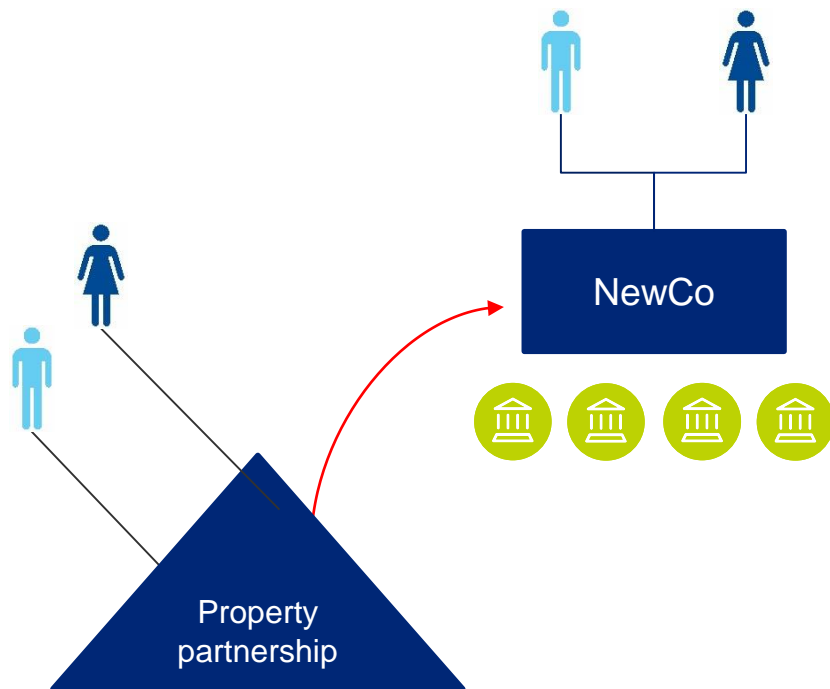
Example	
Property portfolio cost at	£1.5m
Gross yield £107,000 pa	7.1%
Loan to Value	60%
Interest expense £24,000 pa	2.7%

### Notes:

- Assumed additional rate tax payer.
- All dividends are taxed at the additional rate and take into account £5,000 dividend allowance.
- Effective tax rates are fact specific.

# Property Business Incorporations

## Scenario 1: Partnership incorporation



### Scenario

- Property rental business is jointly owned by e.g. husband and wife and is operated as a partnership.

### Result

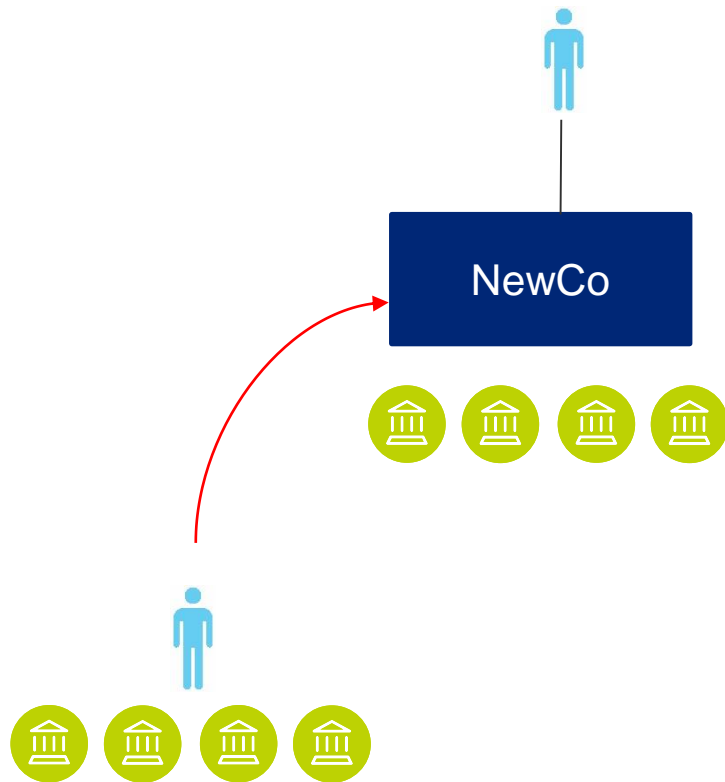
- The property business comprising all of the properties are transferred to a newly incorporated company in exchange for shares.
- Different classes of shares can be issued to each individual which can have different rights.

### Tax Implications

- No CGT liability of incorporating the property portfolio if it qualifies as a “business” and incorporation relief applies. Can obtain a non-statutory clearance.
- Rebases value of properties in NewCo.
- No SDLT on incorporation.
- Rental income taxed at corporate rate of 20% as opposed to income tax at highest rate of 45%

# Property Business Incorporations

## Scenario 2: Single owner incorporation



### Scenario

Property rental business is owned by a single individual.

### Result

- The property business comprising all of the properties are transferred to a newly incorporated company in exchange for shares.
- The individual will now own shares in NewCo which will hold the properties.

### Tax Implications

- No CGT liability of incorporating the property portfolio if it qualifies as a “business” and incorporation relief applies. Can obtain a non-statutory clearance.
- Rebases value of properties in NewCo.
- SDLT payable on transfer of the properties to NewCo.
- Rental income taxed at corporate rate of 20% as opposed to income tax at highest rate of 45%



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