The announcements relevant to property investors and developers

THE IMPACT ON BUSINESS

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The Budget

- The fiscal rules
- The 80/20 rule
- Tax increases limited to:
  - VAT
  - Bank levy
  - Capital gains tax
- Tax Policy Making: a new approach

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Tax policy making: A new approach

- Predictability
- Stability
- Simplicity
- Scrutiny
- Transparency

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VAT

- Rate increase to 20% from January 2011
- Anti forestalling measures
- Implications for irrecoverable input tax re exempt properties
- Impact on contractors and phasing of invoices
- Remember SDLT is charged on the VAT inclusive price

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SDLT

- No change to the rates
- Effective increase due to VAT changes
- Residential over £1m rate increases to 5%
- Avoidance
  - *"The Government today announces that it will examine whether further changes to the rules on stamp duty land tax on high value property transactions are needed to prevent avoidance in this area"*

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Corporation tax

- Phased reduction in large company rate from 28% to 24% in 2014
- Reduction in small company rate from 2011
- Funded in part by capital allowance reductions

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Example Investment Income (small company)

Property acquired for £5m at a yield of 6%

	UK Individual or Partnership	Company (Dividend)	Company (Retained)
Rent	300	300	300
Allowances	(0)	(0)	(0)
Taxable Profit	300	300	300
Income tax 50%	150	N/A	N/A
Corporate tax 20%	N/A	60	60
Tax on distribution	N/A	87	N/A
Total tax	150	147	60
Effective tax rate (%rent)	50%	49%	20%

Example Investment Income (large company)

Property acquired for £5m at a yield of 6%

	UK Individual or Partnership	Company (Dividend)	Company (Retained)
Rent	300	300	300
Allowances	(0)	(0)	(0)
Taxable Profit	300	300	300
Income tax 50%	150	N/A	N/A
Corporate tax 24%	N/A	72	72
Tax on distribution	N/A	82	N/A
Total tax	150	154	72
Effective tax rate (%rent)	50%	51%	20%

Implications for structuring

- Double taxation of <u>income</u> does not arise for 50% tax rate individuals
- Corporate ownership allows income to roll up at relatively low rates of taxation
- Consider company ownership to roll up until future tax rates for individuals fall?

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Capital allowances

- Rates of allowances to fall to 18/8% from the current 20/10%
- A tax relief available for capital expenditure
- For example office blocks tend to have around 30% of total cost qualifying for allowances
- Claim and shelter tax on the first few years of rents – the reduction in rates does not change this!

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Example Investment Income with allowances

Property acquired for £5m at a yield of 6% with 30% of cost qualifying for 18% allowances

	UK Individual or Partnership	Company (Dividend)	Company (Retained)
Rent	300	300	300
Allowances	(270)	(270)	(270)
Taxable Profit	30	30	30
Income tax 50%	15	N/A	N/A
Corporate tax 24%	N/A	7	7
Tax on distribution	N/A	106	N/A
Total tax	15	113	7
Effective tax rate (%rent)	5%	38%	2%

Example Investment Income (large company)

Property acquired for £5m at a yield of 6%

	UK Individual or Partnership	Company (Dividend)	Company (Retained)
Rent	300	300	300
Allowances	(0)	(0)	(0)
Taxable Profit	300	300	300
Income tax 50%	150	N/A	N/A
Corporate tax 24%	N/A	72	72
Tax on distribution	N/A	82	N/A
Total tax	150	154	72
Effective tax rate (%rent)	50%	51%	20%

Implications for structuring

- Double taxation of <u>income</u> does not arise for 50% tax rate individuals
- Corporate ownership allows income to roll up at relatively low rates of taxation
- Consider company ownership to roll up until future tax rates for individuals fall?
- Interaction with allowances

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Business taxation

- Relatively favourable budget
- Key point is corporate tax reform
- Does this change how private clients should structure new property investments?

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IPF Investment Property Forum

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YEARS OF
IPF MIDLANDS
2000-2010