

# The Next Footings in the Local Property Market 2018

Thursday 3<sup>rd</sup> May 2018  
DoubleTree by Hilton Lincoln



# Be a Smart Landlord

**Kelly Goodchild**  
Assistant Tax Manager

Email: [kgoodchild@streetsweb.co.uk](mailto:kgoodchild@streetsweb.co.uk)

Telephone: 01522 551200



@streetsacc



streets-chartered-accountants

## Main Tax Changes

1. Removal of Wear & Tear Allowance
2. Restriction on Mortgage Interest Relief
3. Higher rates of Stamp Duty Land Tax on additional properties
4. CGT surcharge on residential properties

# Wear & Tear Allowance

## Old rules

- 10% of gross rents (less rates)
- No claim for capital items
- Only available on furnished properties
- Good on student accommodation

## New rules

- No more 10% allowance
- Renewals basis, first purchase not allowable, replacement of item allowable
- Available on all types of properties – no distinction anymore

## Be Smart

- If items need replacing, do it before 5 April
- Do reviews of properties in January/February

# Mortgage Interest Relief

## Old rules

- Simple straight forward deduction from rental income
- Therefore relief at rate of tax appropriate, basic, higher or additional

## New rules

- From 6 April 2017 phasing in of restriction
- Until 6 April 2020 all mortgage relief given as a 20% tax reducer

## Phasing In

**“2017/18”**

First year  
effects now

75% as a deduction

25% as a 20% tax reducer

**2018/19**

50% as a deduction

50% as a 20% tax reducer

**2019/20**

25% as a deduction

75% as a 20% tax reducer

**From 6 April 2020**

100% as a tax 20% reducer

## Example

### £10,000 mortgage interest 40% tax payer

<b>2016/17</b>	£4,000 tax relief
<b>2017/18</b>	£3,000 tax relief ( $£10,000 \times 75\% @ 40\%$ ) Plus £500 tax reducer ( $£2,500 \times 20\%$ )
<b>2018/19</b>	£2,000 tax relief ( $£10,000 \times 50\% @ 40\%$ ) Plus £1,000 tax reducer ( $£5,000 \times 20\%$ )
<b>2019/20</b>	£1,000 tax relief ( $£10,000 \times 25\% @ 40\%$ ) Plus £1,500 tax reducer ( $£7,500 \times 20\%$ )
<b>2020/21</b>	£2,000 tax reducer



<b>Example 1</b>	<b>2016/17</b> <b>£</b>	<b>2020/21</b> <b>£</b>
Gross rents received	18,000	18,000
Less: Repairs and other allowable expenses	(1,300)	1,300
	16,700	
Less: Interest paid on mortgage	(10,000)	
Net rental profit	6,700	16,700
Income tax @ 40%	2,680	6,680
Less: Interest relief (20% x 10,000)		(2,000)
Net income tax liability	<u>2,680</u>	<u>4,680</u>

**Tax increase**

**£2000**

<b>Example 2</b>	<b>2016/17</b>	<b>2020/21</b>
	<b>£</b>	<b>£</b>
Gross rents received	640,000	640,000
Less: Repairs and other allowable expenses	220,000	220,000
	420,000	
Less: Interest paid on mortgage	360,000	
Net rental profit	60,000	420,000
Income for each spouse	30,000	210,000
Less: PA	11,000	
Taxable income	19,000	210,000
Income tax @ 20%		6,400
40%	3,800	47,200
45%		27,000
		80,600
Less: Interest relief (20% x 180,000)		36,000
Net income tax liability	3,800	44,600

**Tax increase**

**£40,800**

## Other Implications

### Increase in overall income

- Could lose child allowance if income over £50k
- Could lose personal allowance if income over £100k
- Could push income into next tax bracket 20/40/45%

## Be Smart

- Review your portfolios and mortgages
- Streamline – maybe sell some properties to reduce borrowing (consider CGT)
- Transfer to spouse
- Look at incorporating

# Incorporation of Property Business

- Properties have to be being run as a business
  - Managed by you
  - With a view to make a profit
  - Viable business reason to become a partnership or incorporate
- Viable business on incorporation qualifies for S162 relief
- Also where partnership incorporates no SDLT

## Problems

- Cannot obtain clearance from HMRC
- Change in ownership - remortgage

## Advantages

- Full mortgage relief available for companies
- Lower rates of tax
  - 19% company
  - 7.5% dividends

- Case by case basis
- Not without risks if HMRC challenge

# Stamp Duty Land Tax



@streetsacc



streets-chartered-accountants



## Stamp Duty Land Tax

From 1 April 2016 additional 3% above current SDLT rates on purchases of additional properties

<b>Property value band</b>	<b>SDLT rate for owner/occupier</b>	<b>SDLT rate for additional residential properties</b>
0 - £125,000	0	3%
£125,001 - £250,000	2%	5%
£251,000 - £925,000	5%	8%
£925,001 - £1.5M	10%	13%
Over £1.5M	12%	15%

## Example

Purchase of a £175,000 second property

### Old rules

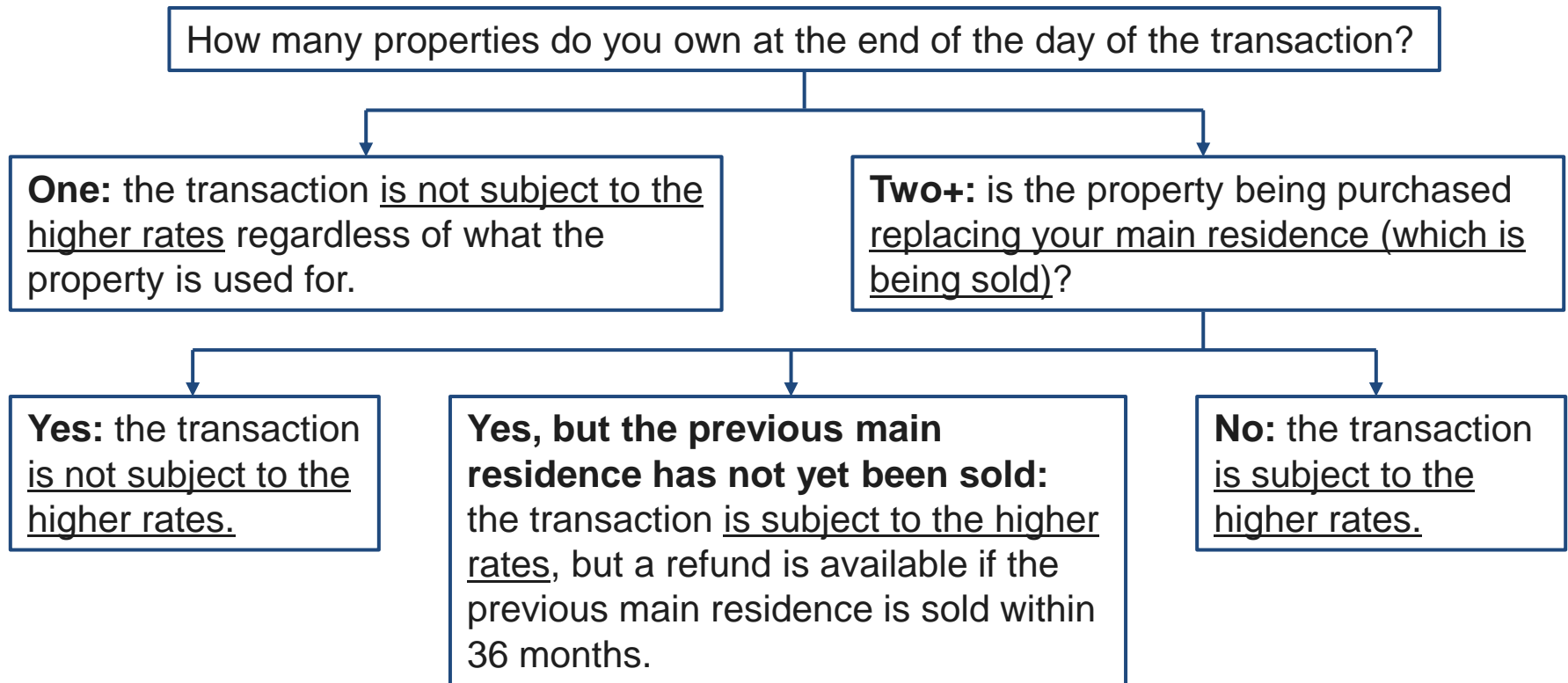
£0 - £125,000 @ 0%	=	£nil
£125,000 - £175,000 @ 2%	=	<u>£1,000</u>
Total		<u>£1,000</u>

### New rules

£0 - £125,000 @ 3%	=	£3,750
£125,000 - £175,000 @ 5%	=	<u>£2,500</u>
Total	=	<u>£6,250</u>

**DIFFERENCE OF £5,250!**

## Test for higher rate SDLT:



## Be Smart

- Buying your child a house, if you are on the deeds (gift cash to children instead)
- Buy new main residence, but keeping old one to rent out
- Sale falls through on main residence, but still complete on new house (if old main residence sold with 3 years can claim additional SDLT back)

## Capital Gains Tax

- April 2016 – Capital Gains on sale of assets
  - 10% basic rate tax payers
  - 20% higher rate tax payers
- April 2016 – Capital Gains on sale of residential property
  - 18% basic rate tax payers
  - 28% higher rate tax payers

# Capital Gains Tax

- Under consultation
- From April 2020
  - Payment of capital gains tax on sale of residential property within 30 days of completion

## A Commercial Property Tax Update

**Chris Connor**  
Tax Partner

Email: [cconnor@streetsweb.co.uk](mailto:cconnor@streetsweb.co.uk)

Telephone: 01522 551200



@streetsacc



streets-chartered-accountants

## Setting the scene

- Tax relief available to businesses where they incur capital expenditure on eligible plant and machinery for use in trade or letting business
- This includes plant and fixtures within commercial buildings and applies on:
  - First purchase
  - Second hand purchase
  - Refurbishment/extension



## Eligible items can represent a significant proportion of the building cost:

### Proportion of Plant in Buildings

Typical proportions:

- Prestige air conditioned office 25 – 40%
- Air conditioned office 18 – 30%
- Hotel 20 – 35%
- Modern office 10 – 25%
- Industrial unit 5 – 20%
- Shop shell 2 – 8%

## What qualifies?

### Integral features (introduced 2008)

- Electrical systems (including lighting systems)
- Cold water systems
- Space or water heating systems, powered systems of ventilation, air cooling or purification and any floor or ceiling comprised in such systems
- Lift, escalators and moving walkways
- External solar shading

## What qualifies?

### Plant:

Based on legislation and established case law, items such as:

- Sanitary ware
- Alarms
- Data installations
- Motors for mechanical items such as doors etc
- Security equipment

## Allowances currently available

- Main pool 18% PA reducing balance (plant items)
- Special rate pool 8% (integral features)
- AIA - £200,000 PA – accounting periods falling within 1 Jan 2016 onwards
- Interaction
- Make claim at appropriate rate when cost incurred
- Often cost within buildings difficult to identify

## FA 2012 changes mean need to satisfy?

- April 2012 fixed value agreement where seller claimed allowances on fixtures
- April 2014 mandatory pooling where seller could have claimed

### Requirements:

- Formal agreement and election (S198 CAA 2001) to fix value of fixtures within building
- If seller entitled claim and has not then they must pool the items before electing them over – mandatory pooling. If pooling requirement not met no allowances for us or any future purchaser

## Likely scenario

### **Buyer negotiating to buy a property from an investor**

- Property acquired from an investor in May 2014, seller hasn't made a claim for capital allowances and they acquired the property from the original developer in January 2004
- Mandatory pooling by seller needs to be satisfied
- Unless seller pools their qualifying expenditure then purchasers entitlement will be nil
- This nil value will also apply to all subsequent purchasers

## Possible solution:

- Buyer assists seller in formulating a claim
- Seller shows assets in capital allowance pool
- Fixed value agreement entered into to transfer allowances to buyer
- CA position of property restored for future sale
- Early advice is essential to prevent transaction delays
- Protective contract clauses

## Who should be concerned about this?

- Buyers of commercial property – will a missed claim by a previous owner affect your resale value?
- Banks – resale value/does tax relief improve the lending proposition?
- Lawyers/Accountants – significant values can be at stake, support from a CA specialist should be sought where appropriate
- Valuers – will an unfavourable CA history affect value?



## Making Tax Digital

- What is MTD:
  - New legislation which will require that records are kept digitally and regular, quarterly submissions, are made to HMRC.
- Timeline for rollout has changed a lot in the last few months.
- Income Tax, which was due to start in 2018, has been delayed until 2020 at the earliest.
- Although the Income Tax pilot is still ongoing.
- MTD is now planned to begin with VAT in April 2019.

## MTD for VAT

- Will apply to VAT registered businesses with turnover above the VAT threshold.
- Voluntary registered will be optional.
- From April 2019 will need to:
  1. Keep digital records
  2. Submit your VAT returns via software
- What to do?
  - Plan early and think about your record keeping now.
  - Read our MTD guide
  - Speak to your usual Streets contact

# Julia Lock

Partner & Head of Commercial Property



---

@andrewllp

[www.andrew-solicitors.co.uk](http://www.andrew-solicitors.co.uk)





1. Delivering homes for everyone

2. Commercial Property update

3. Case law round up

## Delivering Homes for Everyone...

*“An entire generation is being locked out of a broken housing market as prices and rents race ahead of supply. Reforming the planning system is the crucial next step to building the homes the country needs.*

*This government is determined to fix the broken housing market and restore the dream of home ownership for a new generation. There is no silver bullet to this problem but we’re rewriting the rules on planning so we can take action on all fronts.*

*In moving to a more integrated society, the focus for everyone, whether a developer or a neighbourhood group, must be to come together to build the homes our communities deserve”*

The Rt Hon Sajid Javid MP, Housing Secretary – March 2018

Delivering Homes for Everyone...

## Where are we now?

- Recent Initiatives
- Housing Numbers
- The Gap

Delivering Homes for Everyone...

## Government Consultations

- Supporting housing delivery through developer contributions
- National Planning Policy Framework

Delivering Homes for Everyone...

## Conclusions

- Consultation deadlines
- Land values
- Changing the way we build



# Thank you

## Any questions?

**Julia Lock**

*Partner & Head of Commercial Property*

[julia.lock@andrew-solicitors.co.uk](mailto:julia.lock@andrew-solicitors.co.uk)

01522 781473



---

@andrewllp

www.andrew-solicitors.co.uk



# John Roper

Associate Partner - Commercial Property

*Commercial Property Update*



---

@andrewllp

[www.andrew-solicitors.co.uk](http://www.andrew-solicitors.co.uk)



# Commercial Property Update:-

- Minimum Energy Efficiency Standards – now in force.
- Electronic Communications Code – introduced in December 2017.
- Public right of way – deposit by landowner of statement under Highways Act 1980
- Japanese Knotweed – private nuisance – 2 County Court cases

# Commercial Property Update:-

- Stamp Duty Land Tax returns – reduction from 30 day window to 14 day window delayed

# Commercial Property – case law round

## up:-

- S Franes Ltd v Cavendish Hotel (London) Ltd (2017) HC.
- Derreb v Blackheath Cator Estate Residents (2017) UKUT
- Rossendale BC v Hurstwood Properties (2017) HC
- *J N Hipwell & Son v Szurek* (2018) EWCA

# Thank you

## Any questions?

**John Roper**

*Associate Partner*

[john.roper@andrew-solicitors.co.uk](mailto:john.roper@andrew-solicitors.co.uk)

01522 780592



---

@andrewllp

www.andrew-solicitors.co.uk



# The Next Footings in the Local Property Market 2018

Thursday 3<sup>rd</sup> May 2018  
DoubleTree by Hilton Lincoln

