



## Agenda

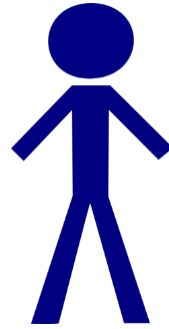
- Development Structures and Risk
- Joint Venture Considerations
- Commercial to Residential Developments
- VAT aspects
- Construction Industry Scheme

# Property Developers – Ownership Structure

## LET'S PUT IT BEYOND DOUBT

- Company is the way to go
- Personal protection
- Asset protection
- Tax planning and savings
- If the project goes bad or loses money, without a company
- You are personally responsible for the debt
- All of your wealth is at risk
- Developing is trading
- Profits over £150k are taxed at 47% - don't make Rishi happy

## Why Use a group?



Mr Smith  
developme  
nts Ltd

### Mr Smith Developments Ltd

- Series of deals, buy for £200k, develop for £100k sell for £400k
- Profit per deal £100k
- After 4 projects £400k in the bank – retained profits
- Deal 5 goes bad, liquidators are called in

## Who gets paid first?

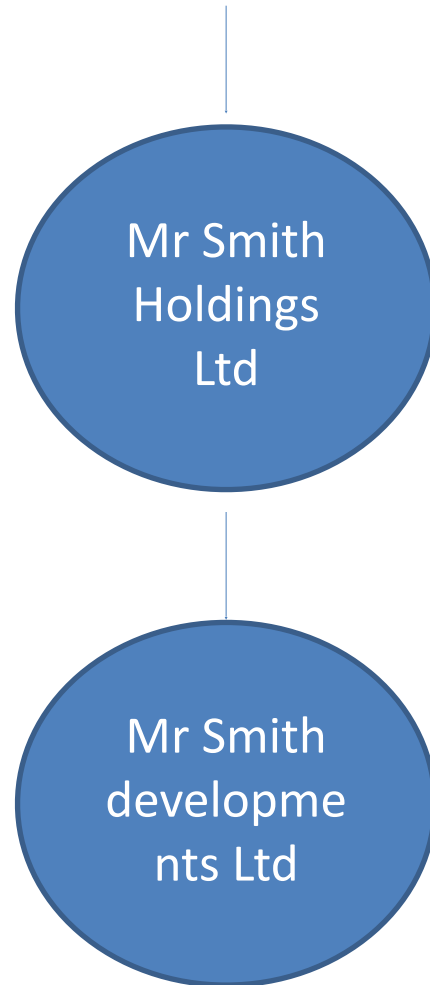
- 1 – Liquidator
- 2 – Preferential creditors – charge holders
- 3 – HMRC – 2<sup>nd</sup> Pref – VAT/CIS/PAYE/NIC
- 4 – Floating charge holders
- 5 – Unsecured creditors
- 6 – Shareholders

Mr S is at the bottom of the list

Mr Smith  
developments  
Ltd



## Why Use a group?



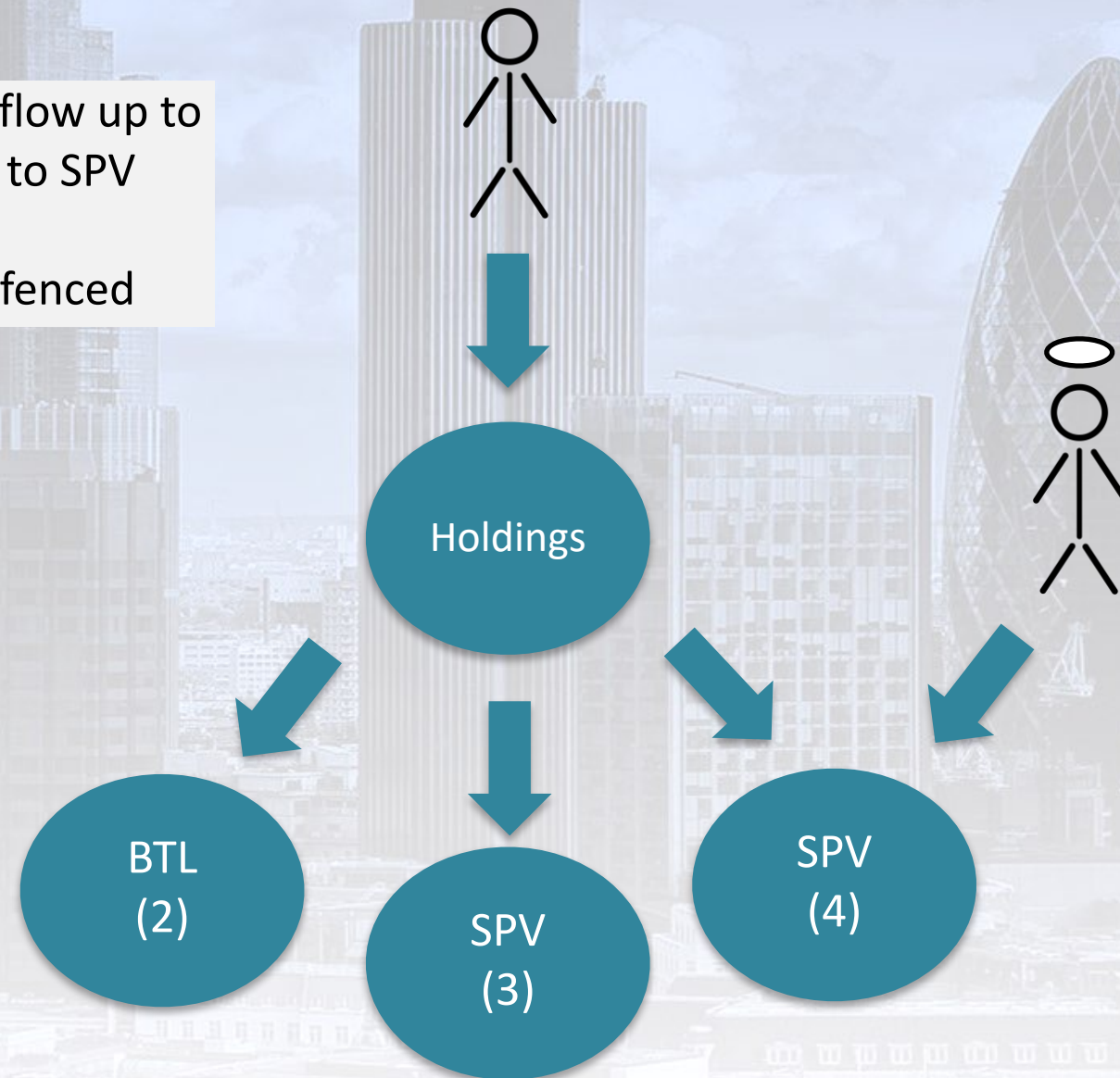
Mr Smith Holdings owns Mr Smith Developments Ltd

- After each project or periodically, profits are sent
- By dividend to holdings, effectively owed.
- If a project goes bad, holdings is now an unsecured creditor
  
- If cash is sent it can be reloaned with security, Holdings is
- Now a preferential creditor
- Any cash in holdings is not part of the liquidation
  
- Dividends to holdings are tax free

# Even better use an SPV for each project

Funds must always flow up to Holdings and down to SPV

Each project is ring fenced

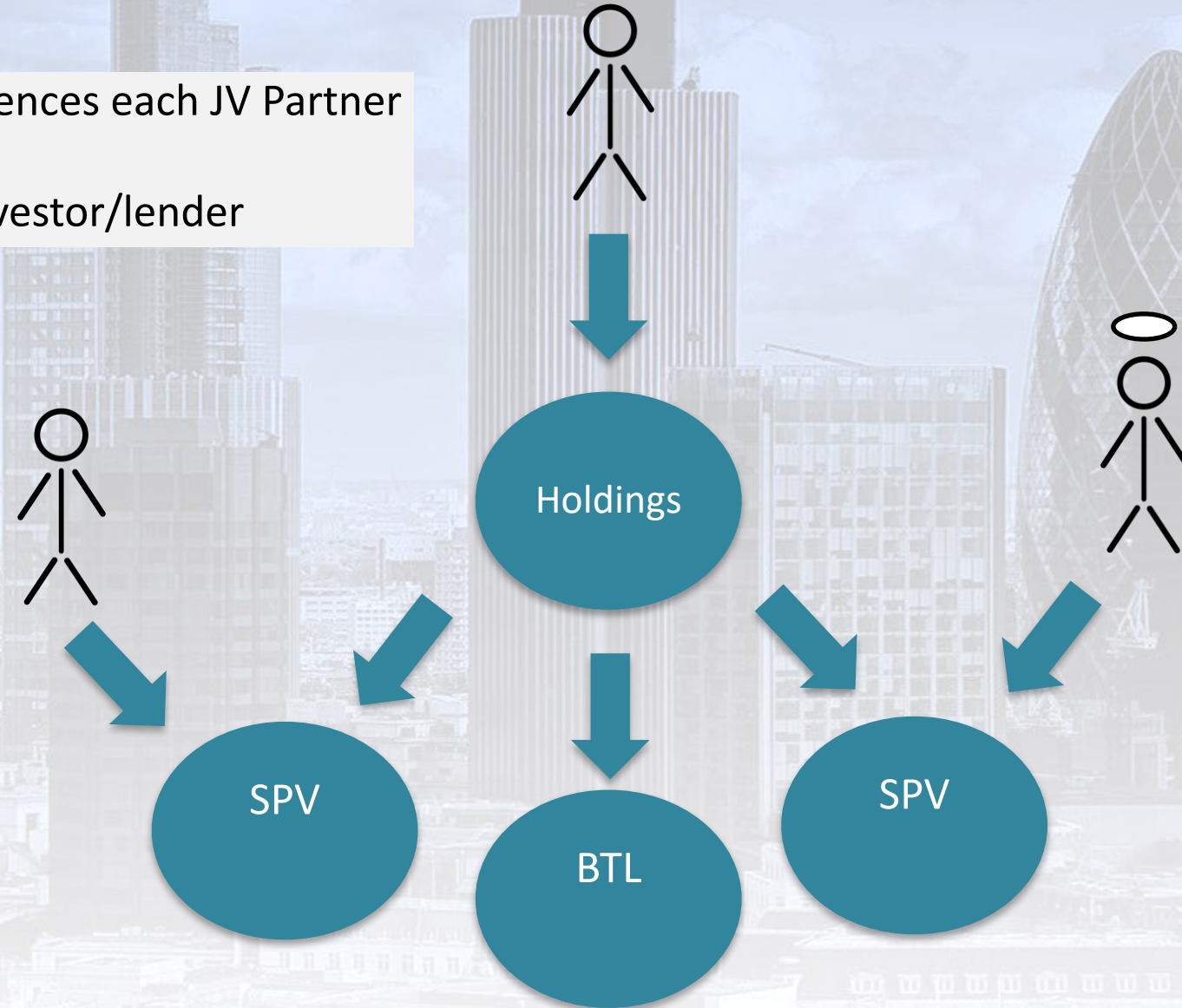


## Joint Venture Factors to Consider

- Group structure necessary
- You plan a development why wouldn't you plan your structure?
- What's the risk? What's the exit?
- Shareholders Agreement – what ifs?
- Protection of individuals and reinvestment

# Joint Venture Structure

Group ring fences each JV Partner  
And each Investor/lender



## Commercial to Residential conversions

- Plan the deal, plan the tax
- Stamp duty – commercial or residential
- Planning pre-completion, multiple dwellings relief
- Keep or flip?
- Are you selling assets or shares?
- Biggest challenge is lending, availability and cost

## VAT aspects

- Does the building have an option to tax in place
- Are you going to rent or flip?
- Can VAT be recovered?
- Are you going to keep any commercial elements?
- What did/does the building do?

## On Acquisition

- Option to tax – building is vatable
- Continue with commercial lease in place TOGC, No VAT to pay, stamp duty on the net
- Only going to be used as residential – disapply to Option, before price is fixed

## On development – if selling

- If creating first major interest in residential then sale is zero rated – VAT claim available
- Be careful with pubs and care homes
- 5% Or 20%
- Main contractor supplying materials and services 5%

## On development – if keeping

- Renting is exempt activity so no VAT claim possible
- But you could sell it to yourself...
- Sale between 2 subsidiaries
- Stamp duty exempt
- Full VAT reclaim
- BUT
- Corporation tax on uplift
- Gives cashflow advantage but a number crunch for the benefit
- Sell at golden brick stage?

## Construction Industry Scheme

- Property development is caught by CIS as a mainstream contractor
- Required to register for CIS and deduct CIS tax on payments made to sub contractors no de minimums
- What is your intent? Rent or sell? At what level?
- Large property Investments can also be caught
- £3mil expenditure on rolling 12 month period

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# **The right structure for property investments**

**Sean Hughes**

**CTA**

# SEAN HUGHES

## COMPREHENSIVE TAX PLANNING

- Over 12 years experience
- Specialises in advising landlords
- Chartered Tax Advisor
- Objective advice



# SEMINAR CONTENTS

- Section 24
  - Basic overview
- Section 24 – know your options
  - *Stay as you are*
  - *General Partnership*
  - *Incorporation*
  - *SA*
  - *Sell up!*



# Pre-Section 24

	<u>2016/17</u>
Rent	100,000
Interest	(40,000)
Other expenses	<u>(25,000)</u>
Profit	<u>35,000</u>
Tax @20%	7,000
<b>Tax liability</b>	<b>7,000</b>



# Section 24

	<u>2016/17</u>	<u>2020/21</u>
Rent	100,000	100,000
Interest	(40,000)	NIL
Other expenses	<u>(25,000)</u>	<u>(25,000)</u>
Profit	<u>35,000</u>	<u>75,000</u>
Tax @20%	7,000	7,000
Tax @ 40%	Nil	16,000
Interest 20% credit	Nil	(8,000)
<b>Tax liability</b>	<b>7,000</b>	<b>15,000</b>

# Section 24

- Will push some into higher rate tax
- Effect on higher rate taxpayers:

*Mortgage interest payments @ 20% = Tax Increase*

- **Limited Companies not affected**



# Section 24 - Options

- There is no Holy Grail
- Anyone advising a one size fits all approach is probably wrong
- Depends on personal circumstances
- Real world examples....



# Stay as you are!

- If all your income is taxed at basic rate
- After the s24 adjustment, then you are not affected by s24!

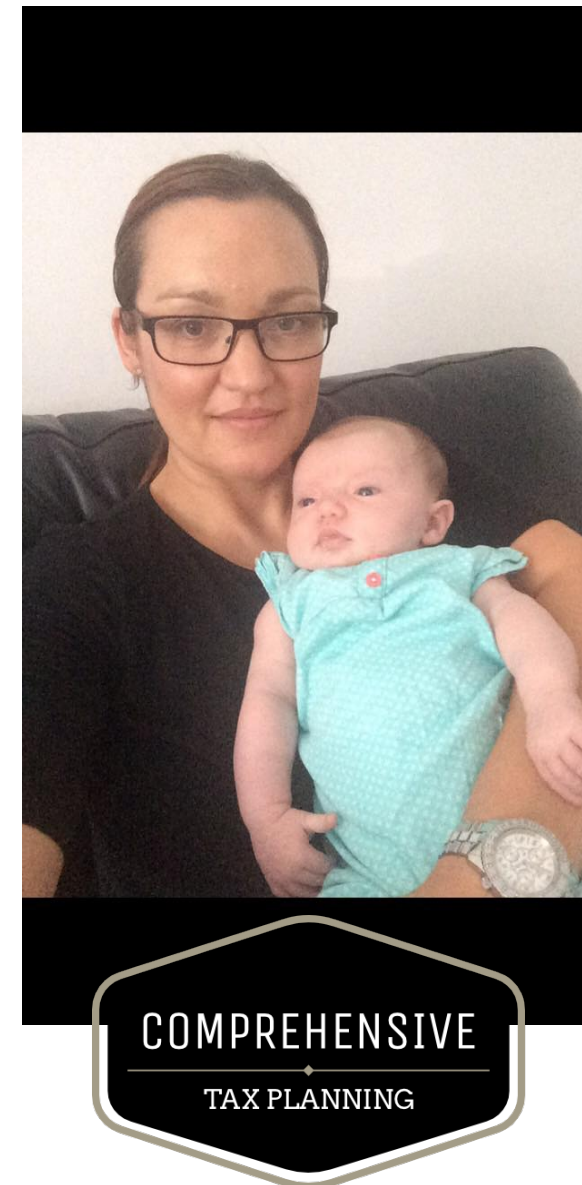


- May need to consider IHT planning, if there is exposure



# General Partnership (with spouse)

- Mr G wanted to incorporate his portfolio
- Didn't meet all criteria
- Wife just had baby
- Not going back to work
- Now utilises her full BRB
- So not affected by s24!



# INCORPORATION

- Move Properties to a limited company
- Limited companies can still make full deduction for interest charges
- CGT & SDLT can be mitigated on incorporation if criteria met
- Possible to incorporate without refinancing – depending on lenders
- Contact Sean to discuss



# BTL -> SA

- Serviced accommodation not affected by s24
- Must meet criteria of FHL tax legislation
- Part of portfolio
- More effort



# Sell up!

- Some people have had enough
- Tax changes
- HMO legislation
- Eviction bans
  
- CGT puts most people off



## INCORPORATE & THEN SELL UP

- Could transfer properties to Ltd Company
- Base cost of properties then re-set
- Sell properties at minimal gain
- Use net proceeds as a pension



# Other Considerations

Structure should not just be based on s24

- JV's
- Commercial
- Inheritance Tax



Questions?

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