THE PROPERTY BUSINESS

Tax Issues & Tips

17th March 2008

Agenda

- Introduction
- Taxes Involved & Capital Gains Tax Changes 2008
- Keeping the wolf from your door
- 5 Tax Tips

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ABOUT US

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Experiences in the Team

Kaaeed Mamujee

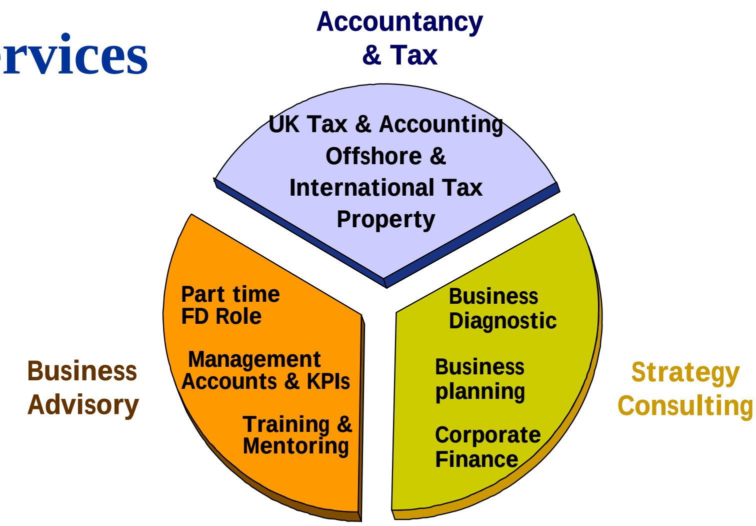
Azam Mamujee

- Chartered Accountant
- Trained with KPMG
- Financial Controller for a £1bn company before setting up M Cubed

- Chartered Accountant
- Trained with Deloitte, graduated Cambridge University
- Director at Deloitte before leaving to set up M Cubed

We are property & BMV investors - we know property!

Services



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TAX & PROPERTY

Taxation

- The main taxes
  - Income Tax & National Insurance for Sole Trader or Partnership
  - Corporation Tax for limited liability companies
  - Capital Gains Tax
  - Inheritance Tax
  - Stamp Duty Land Tax
  - VAT

NOT ONLY ABOUT INDIVIDUAL TAXES BUT ALSO INTERACTION BETWEEN THEM

Capital Gains Tax

- Capital Gains Tax is levied on chargeable gains as reduced by allowable losses, annual allowances & other reliefs.
- Personal Annual Allowance of £9,200 available in 2007/08 available to both partners in a married couple or CP.
- Certain assets are exempt from CGT
  - Principle Private Residence
  - Chattels with a predictable useful life of less than 50yrs eg caravans, boats, cars
  - Gifts to charity
- CGT is paid by the individual at their marginal rate of tax up to 5th April 2008 and 18% there after.

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Inheritance Tax

- For deaths after 9th October 2007, £300,000 individual allowance, £600,000 if married or in a CP and retrospective for 1st spouse death.
- Transfers between spouses are exempt
- Gifts / chargeable transfers made within 7 years of death are included in the inheritance tax calculation of individuals.
- Inheritance tax is chargeable at 40% and payable 6 months after the death of the individual.
- There are ways to mitigate inheritance tax, but these need to be planned.

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KEEPING THE WOLF FROM YOUR DOOR

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When it goes wrong

If HM Revenue and Customs finds out, you may be charged:

- Tax due
- Interest
- Penalties
- Risk of prosecution
- Imprisonment (extreme cases)

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Size of penalties

By law, the penalties may equal 100% of unpaid tax plus interest:

However reductions may be available for

- Up to 20% to reflect the extent to which you have disclosed information about your income (especially if voluntarily)
- Up to a further 40% to reflect the extent to which you have cooperated in the enquiry, and
- Up to a further 40% to reflect the gravity of the case.

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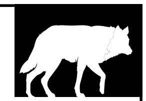
Years of investigation



How many years will HMRC go back?

- HMRC can normally go back 6 years
- For fraud or neglect. Under current rules, HMRC can go back 20 years

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5 TAX SAVING TIPS

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Idea 1 – Property Management Company

- Property owned personally
  - Property management company
  - Formal contract between the landlord and the company
  - Takes advantage of incorporation whilst ownership personal

- Advantages
  - Able to pay a salary to persons managing the property
  - VAT on the service may be an advantage
  - Management contract could involve costs such as leafleting or marketing for other opportunities
  - Ability to control timing of flows of dividend income

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Idea 2 – Principle Private Residence

- Principle Private Residence – PPR
  - Exempt from capital gains tax
  - Allowed to have one per couple but two if not married or in a CP
  - Need to live at the property and prove that you were resident, bills, statements, correspondence, electoral register
  - If you move out then any gain will be apportioned and last 3 years of ownership also exempt
  - Private Letting relief
    - Lower of £40,000 or PPR already claimed or chargeable gain attributable to the letting
  - Buy, live and move on strategy

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Idea 3 – Partnerships

- Partnership
  - Able to use the tax relief of partners
    - Income tax
    - Capital gains tax allowance
  - Reduce tax bill by sharing income
  - Transfer of assets between married couples or CP's is free of tax
  - There may then be inheritance tax issues which would need to be resolved through estate planning
  - Partnership means joint and several liability ensure you can absolutely trust your partner

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Idea 4 – Children at College

- Children at College
  - Children are over 18 years old
  - Move away to college
- Children purchase property
  - Principle private residence
  - Income may be tax free if they have no other income
  - HMO as rent received from other tenants
  - Property looked after as children living there
  - Hold onto after 3 years when graduating
  - You pay no rent for the kids

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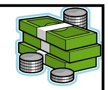

Idea 5 – Take advice
Prevention better than cure

- Prevention is better than cure
  - Easier to set up things correctly at the beginning than take corrective action
  - Save more tax and probably be cheaper in terms of costs

- Take professional advice
  - Taxation is a complicated area
  - Circumstances vary between individuals
  - Laws changing all the time
  - A good accountant should be able to save you multiple of fees

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