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SPECIAL REPORT

Summer Budget 2015: The Property Investors Survival Guide

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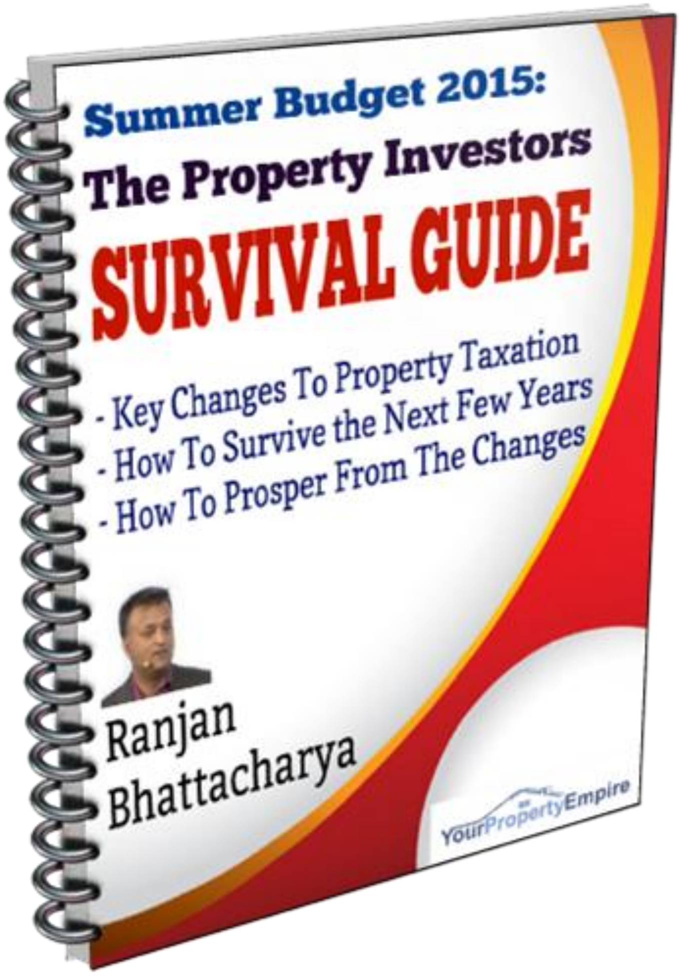

Please Feel Free To Circulate This Report
Among Your Friends Who You Feel Will Benefit.

... And don't forget to Sign The Petition.
(Let's see whether we can persuade THEM to have a rethink?)

SPECIAL REPORT

Summer Budget 2015: The Property Investors Survival Guide

Published by YPE Ltd, October 2015.

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Thank You and Special Acknowledgements:

I would like to thank the following people who have helped considerably in this campaign to raise awareness among property investors.

Alex Caravello

Alec Caravello

Good friend and accomplished property investor Alex Caravello, Chairman of the Milton Keynes Private Landlords Association (MKPLA), {alex@alexcaravello.com} for the excellent work he has done putting together the Budget Impact Spreadsheet Calculator which accompanies this report and for developing the worked example scenarios used in this report.

Cyril Thomas and Gary Bees

With Cyril Thomas at Essex Property Meet

With Gary Bees at Northampton Property Meet

My good friends and accomplished property investors Cyril Thomas and Gary Bees.

Cyril runs the Essex Property Meet and also the Annual Property Investors Awards, (which I am involved in as part of the judging panel.)

Gary Bees runs the Northampton Property Meet.

Cyril and Gary gave me a platform to host a 90 minute interactive workshop on the impact of the budget, at their respective networking events.

I hosted two 90 minute sessions to 100 property investors and I would like to thank all who attended and challenged me with your questions.

Running these sessions and dealing with all the questions raised, was invaluable in putting together this report.

Anna Harper & Damien Fogg from 'The Property Investor Podcast'

Anna Harper

Damien Fogg

I would like to thank Anna Harper and Damien Fogg from the Property Investor Podcast for recording the podcast which accompanies this report and giving me permission to distribute it with this report.

The Property Investor Podcast is a free series of audio interviews covering investment strategies and advice to help people on the path to their property investment success.

Click here to subscribe to the free Property Investor Podcast.

Click here to visit their Facebook page

Do you organise a property investors networking event?

I am aim to spread awareness of the budget impact to as wide an audience as possible. One of the best ways of doing this is at networking events, where I present this report in an interactive style encouraging audience participation and questioning.

If you organise a Property Investors Networking meeting and would like me to speak at your event, please get in touch at ???????????????.com.

You can checkout what people have said about previous talks on my facebook page, {{{{{{{{{{Facebook}}}}}}}}}}}}}})

1. Introduction

1.1 About the author: Ranjan Bhattacharya

Ranjan is a seasoned property investor and developer who over the last 25 years has built an extensive portfolio of residential and commercial property in London.

He was first bitten by the 'property bug' after being given a Monopoly set for Christmas, at the age of eight. Having spent endless school holidays playing Monopoly from dawn to dusk, Ranjan couldn't wait to 'grow-up' to buy his first investment property.

On graduating from University with a Computer Science degree in 1990, Ranjan embarked on a corporate career in Management Consultancy, joining Accenture. After graduating, and before actually starting work, Ranjan bought his first investment property at the age of just 22.

Ranjan saw the buying opportunity presented by the 1990's economic recession and built a substantial portfolio of high quality income producing properties in Central London, while at the same time pursuing his demanding Management Consulting career.

In 1994 Ranjan took a break to study for an MBA at the Cranfield School Of Management. After which Ranjan continued in Management Consultancy and worked for major worldwide management consulting firms.

In 2001, despite loving his day-job, Ranjan quit to setup his property company which focuses on developing residential and commercial property for rental.

In 2003 he started being invited to share his knowledge with other property investors at major trade shows, exhibitions and conferences.

He is author of the 'Build Your Property Empire' property investment home study course which was first published in 2005 and has sold 13,000 copies (currently out of print).

Ranjan freely shares his investment strategies through his website YourPropertyEmpire.com and at property networking events around the country.

1.2 Why Have I Written This Report?

The 2015 Summer Budget is a Game Changer for ALL property investors.

Never before has a Chancellors budget affected so many, but so cleverly worded that so few of those affected, actually fully understand the impact on their livelihoods.

The impact of the Budget is all I am asked about when I attend property networking meetings around the country. Those in the know are deeply concerned about the Budget impact and even the viability of their property businesses going forward.

Against this backdrop, I am surprised how blissfully unaware so many property investors still are about the serious blow that has been dealt to their property business.

In a nut-shell, if you have a mortgage on a property you let out, you will pay more tax and you could possibly make a loss as a direct result of this new tax.

I have written this report to raise awareness among property investors so that people are fully aware of what's happening. Once property investors better understand the confusing nature of this tax and how it unfairly affects them, it will encourage people to make a bit more noise in protest. So far there has been relatively little media coverage perhaps because public opinion seems to be so against Landlords right now.

Once you have read and digested this report, please Sign The Petition. (Once there are 100,000 signatures there may be a debate in parliament. I would also urge you to Find Out Who Your MP Is and write to them.

However, I don't feel it wise to pin the entire future of your property business on the 'hope' the Government may change their mind.

If you read the Finance Bill (clause 24 is what affects Property Investors most), you will see that the draft legislation is quite detailed and I believe quite calculating in what it aims to achieve. While a complete u-turn is unlikely, we can expect better transition arrangements for existing property portfolio owners.

I believe it is critical to start taking steps NOW to prepare for the changes ahead and restructure your property business accordingly. Those with an existing property portfolio will find that any portfolio restructuring will take time (possibly a couple of years) to completely implement. That's why in order to survive; early recognition of the problem and immediate action is required.

1.3 Researching This Report

Firstly, I need to emphasise that I am NOT a tax advisor or Accountant. I am a property entrepreneur of 25 years who is impacted by the budget changes. If I do nothing to act, the budget will cause me a lot of pain hence why I felt it necessary to devote a considerable amount of time and energy to educate myself further.

I have spent over 100 hours in meetings with 41 different professionals in a mission to seek out the best advice on how to address the challenges thrown up by this Budget. I have consulted with Accountants, Strategic Tax Planning Consultants, Tax Barristers, Property Lawyers, Lenders and other property investors in my research. What I have discovered is that you will need help from several different professional service disciplines to arrive at suitable solutions. What I am presenting in this report are my findings from this research and some solution ideas too.

My research is ongoing and I will be publishing regular free updates over the coming months. Make sure you register at YourPropertyEmpire.com to receive:

- regular free updates;
- bonus chapters;
- case studies of affected individuals

1.4 What You Will Learn By Reading This Report

This report sets out:

- The impact of the key changes to property taxation and how nearly all Property Investors will pay a lot more tax;

- The steps you must take now to prepare for what I call the ‘Buy-To-Let Tax Grab’, so you can survive the next few years;

- The business models you must adopt to prosper from these tax changes and profit in the new Buy-To-Let landscape which will emerge.

1.5 How to get the most out of this report

Once you have read and digested the report, I am sure you will have a number of questions.

I am presenting this report and taking questions at a number of Property Investor Networking Meetings nationwide.

Northampton Property Meet, Sep-15
Essex Property Meet, Sep-15
Milton Keynes Property Meet, Oct-15
Property Investor Show, ExCel Centre, Oct-15
Midas Property Club, Wembley, Oct-15

Details of these and of further events (which are being added all the time), are available at <<<{{{{{{{{{{{{{{{{{website}}}}}}}}}}}}}}}}}

The solutions to the problems the budget poses are constantly evolving and developing. The latest ideas and innovations will be presented at the live meetings. It’s also a invaluable in terms of meeting like minded people who are facing the similar challenges.

1.6 Background to the Summer Budget 2015

George Osborne's first post election budget was a surprise and shock for all property investors.

The Summer Budget of 2015 is quite simply a game changer for all owners of residential buy-to-let property funded by a mortgage. You will soon not be allowed to offset all your mortgage interest against your rental income. Due to the complex way they are proposing to implement this, you will end up paying a lot more tax than you may at first think.

All this came out of the blue because there was no mention of it in the Conservative Party election manifesto. In fact, this proposal only appeared in the Green Party election manifesto, which was widely ridiculed as being unworkable.

(Checkout this YouTube video and watch from 2 minutes in!!)

During George Osborne's budget speech in parliament, George Osborne claimed that this change would only affect 1 in 5 Landlords and this statistic got widely reported in the media.

The day after the budget the IFS (Institute of Fiscal Affairs) as well as some leading Accounting Firms questioned the accuracy of these figures.

When you take a closer look at the full package of measures which are being thrown at Landlords you can see that almost EVERY owner of mortgaged Buy To Let residential Property, will be worse off.

I can’t emphasise enough what a game changer this is. There will be winners and losers. Some will decide to sell up or go bust while some of those who plan ahead will find themselves in a better position than they are now.

This report will address the 3 key budget changes which will affect property investors. The 3 key budget changes are:

1. Limiting mortgage interest relief;
2. Removal of 10% wear and tear allowance;
3. Changes to dividend extraction rules from Limited companies.

2. Understanding the 'game changer'

The Game Changer is the way your mortgage interest payments are now going to be taxed as though it's your income!

Buy-To-Let investors who have remortgaged their portfolio to raise finance for further property investments, will find themselves most penalised.

2.1 New Terminology!

When I first heard the budget speech I didn't understand what the Chancellor was talking about. I just couldn't get my head around what he meant by mortgage interest relief.

Below is the Property income page from the 2015 tax return as found on the HMRC website.

Property income

Do not include furnished holiday lettings, Real Estate Investment Trust or Property Authorised Investment Funds dividends/ distributions here.

20 Total rents and other income from property £ . 0 0

21 Tax taken off any income in box 20 – read the notes £ . 0 0

22 Premiums for the grant of a lease – from box E on the Working Sheet – read the notes £ . 0 0

23 Reverse premiums and inducements £ . 0 0

Property expenses

24 Rent, rates, insurance, ground rents etc. £ . 0 0

25 Property repairs and maintenance £ . 0 0

26 Loan interest and other financial costs £ . 0 0

27 Legal, management and other professional fees £ . 0 0

28 Costs of services provided, including wages £ . 0 0

29 Other allowable property expenses £ . 0 0

Calculating your taxable profit or loss

30 Private use adjustment – read the notes £ . 0 0

31 Balancing charges – read the notes £ . 0 0

32 Annual Investment Allowance £ . 0 0

33 Business Premises Renovation Allowance (Assisted Areas only) – read the notes £ . 0 0

34 All other capital allowances £ . 0 0

35 Landlord's Energy Saving Allowance £ . 0 0

36 10% wear and tear allowance – for furnished residential accommodation only – read the notes £ . 0 0

37 Rent a Room exempt amount £ . 0 0

38 Adjusted profit for the year – from box O on the Working Sheet – read the notes £ . 0 0

39 Loss brought forward used against this year's profits £ . 0 0

40 Taxable profit for the year (box 38 minus box 39) £ . 0 0

41 Adjusted loss for the year – from box O on the Working Sheet – read the notes £ . 0 0

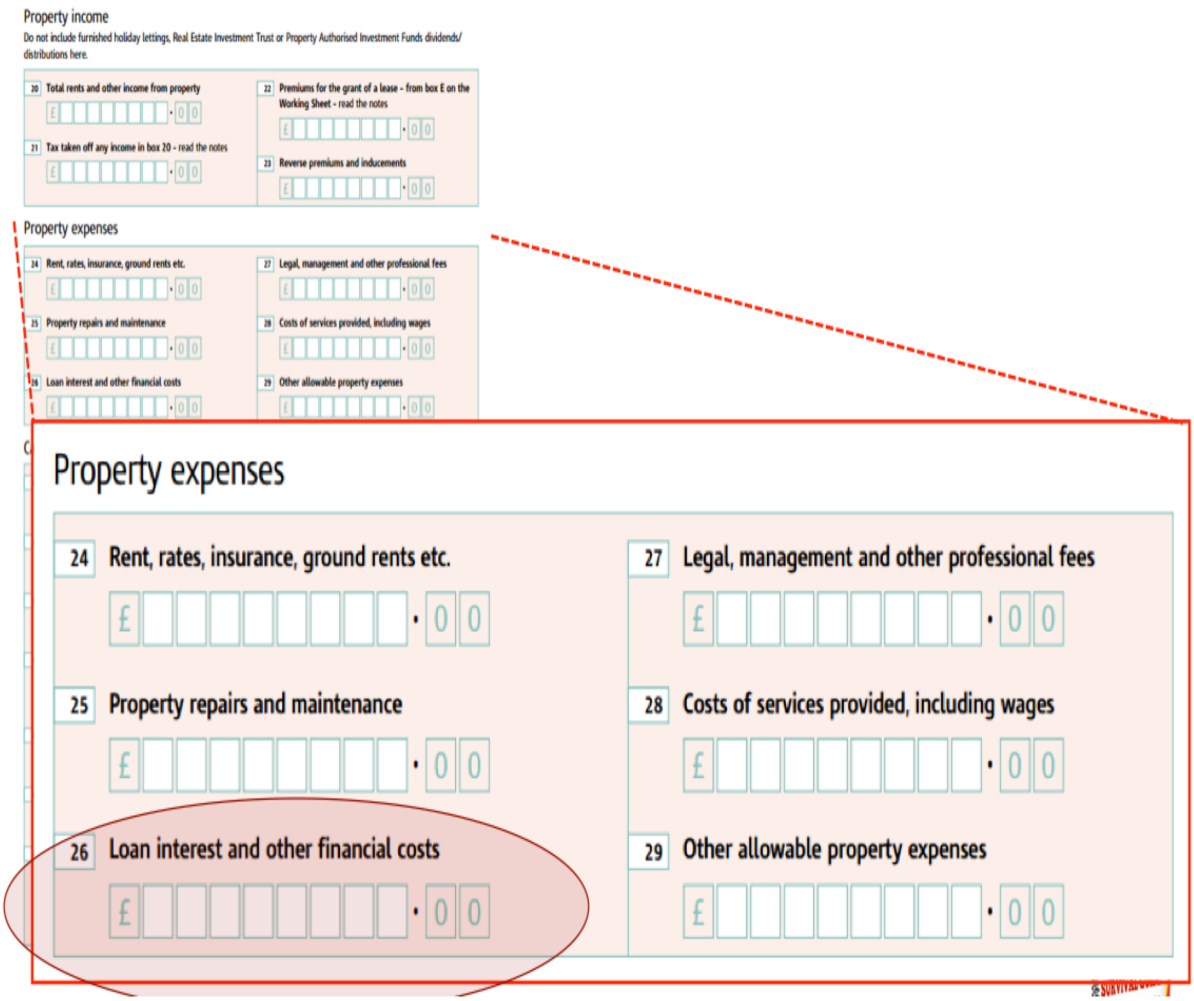
42 Loss set off against 2014-15 total income – this will be unusual – read the notes £ . 0 0

43 Loss to carry forward to following year, including unused losses brought forward £ . 0 0

SA105 2015 Page UKP 2

Property Income Page from HMRC tax return 2015

Lets take a closer look at the Property Expenses section:


Property income

Do not include furnished holiday lettings, Real Estate Investment Trust or Property Authorised Investment Funds dividends/distributions here.

20 Total rents and other income from property

22 Premiums for the grant of a lease - from box E on the Working Sheet - read the notes

21 Tax taken off any income in box 20 - read the notes

23 Reverse premiums and inducements

Property expenses

24 Rent, rates, insurance, ground rents etc.

27 Legal, management and other professional fees

25 Property repairs and maintenance

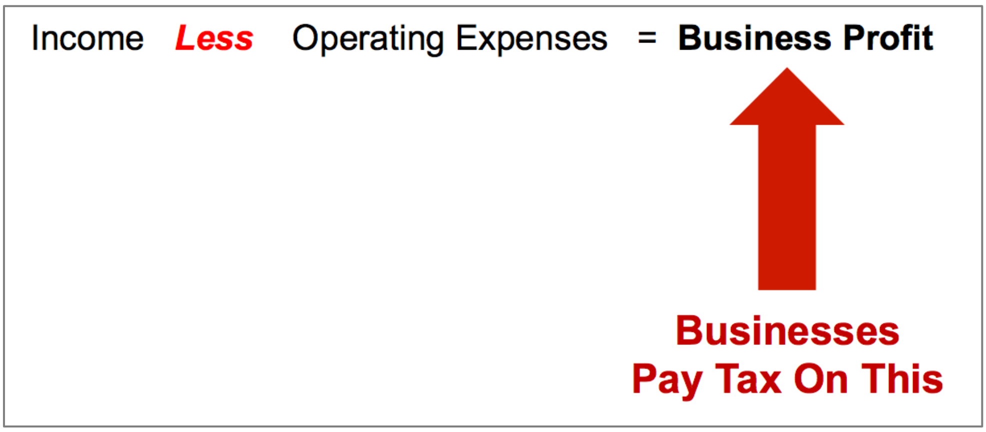
28 Costs of services provided, including wages

26 Loan interest and other financial costs

29 Other allowable property expenses

As you can see, loan interest has always been an expense. Like any other business in the UK, (or in any other G7 country) you deduct all your expenses from your income to determine your business profit on which you pay tax.

Let me state the blinding obvious once more on how businesses the world over are assessed for tax:



So with no prior consultation, what used to be a fully deductible 'operating expense' will now be disallowed when calculating your taxable profit.

Instead there is now 'mortgage interest relief', which will only allow you to offset a proportion of your largest expense against your rental profit.

2.2 What this means in a nutshell

The rest of this report covers the impact of these changes and possible solutions. But here is a bullet point summary of the impact of the new rules:

- As a result you will now pay tax on a proportion of your largest operating expense as though it is income.
- Private individual landlords will now become the only business in any G7 country to pay tax on turnover and not profit.
- If and when interest rates rise, you will be deemed to have made more taxable profit and therefore will pay more tax
- It is unlikely you will be able to raise rents by enough to cover the extra tax.
- If you have high borrowings you may be making a small profit now but will be plunged into loss with the new tax rules.
- Its not just mortgage interest which won't be allowed as an expense but also loan arrangement fees, bridging loan interest and loan interest from private lenders

Impact on 40% Tax Payers

40%

If Your Gearing Is 75%

- **You Will Make ZERO Profit From 2020**

If your gearing is more 75% You Will Make A Loss!!

(The above is net of typical costs. If you have leasehold flats with high service charges, your situation will be worse!)

Impact on 45% Tax Payers

45%

If Your Gearing Is 68%

- **You Will Make ZERO Profit From 2020**

If your gearing is more 68% You Will Make A Loss!!

(The above is net of typical costs. If you have leasehold flats with high service charges, your situation will be worse!)

2.2 Who is not affected

Interestingly (and very unfairly), this new tax does not affect every one. The following property investors will be largely unaffected:

- Individuals who hold commercial property
- Individuals who own residential property with no borrowings
- UK Limited companies
- Offshore companies and trusts

2.3 How you are clobbered as a private individual Landlord

For many leveraged property investors, mortgage interest repayments account for at least 60% of total operating expenses.

Since your taxable profit combined with your other earnings (eg salary), is used to determine your tax band, many buy-to-let landlords will find themselves in a higher tax bracket than they are currently in.

As a result, private individuals with mortgaged rental property will pay a lot more tax.

This is in effect a turnover tax on property businesses owned by private individuals.

What's unfair about this is that if you owned your properties in a limited company, you would still be able to offset the entire mortgage interest against your rental income.

What the Government is in effect saying is that it doesn't consider private individuals who own residential property to be running a business.

The changes will start to take affect from 2017 and will be fully implemented by 2020.

3. Who Is Affected By This Tax and How?

3.1 What 'investor type' are you?

In this report I have identified the following four 'types' of Landlord.

- The 'New Starter'
- The 'Sideliner'
- The 'Full-time Landlord'
- The 'Mega-Landlord'

In the remaining sections of the report we will look at how these different groups are impacted and the solutions available to them.

(I should point out, that these four groups are not HMRC definitions but ones I have made up so that I can better explain how different landlords are affected and what they can do about it.

3.2 The 'New Starter'

You are a 'New Starter' if:

- You are looking to purchase their first buy-to-let property in next few months

3.3 The 'Sideliner'

You are a 'Sideliner' if:

- You have less than 10 properties and;
- You are in a full-time job which is your main focus

You consider Buy-To-Let as a sideline activity which you never intend to be your main business. Your primary objective is long term capital appreciation rather than making monthly cash-flow to live on. You may be buying property as an alternative to a pension rather than as being a business in its own right.

If you are a 40% tax payer from your salary alone, and you do not see yourself quitting your job then you will be one of the groups most clobbered by the tax changes.

3.4 The 'Full-time Landlord'

You are a 'full-time Landlord' if:

- You have more than 10 properties and;
- You are a full-time Landlord and;

- You don’t have a day-job, (ie salary from elsewhere)

You perhaps invest with your spouse and both of you work full-time in your property business. You do most of the work involved in letting and managing rental property yourselves (ie you outsource little to lettings and/or managing agents)

3.5 The ‘Mega-Landlord’

You are a ‘mega landlord’ if:

- You have considerably more than 10 properties and;
- You don’t have another day job and
- You work full-time in your property business
- You operate from an office (which is ideally separate from your home)
- You employ 1 or more people (who are not main shareholder/directors)

4. Impact on different property investor types

4.1 The 'New Starter'

New starters need to take a step back and take time to consider their game-plan. If the intention is to build a portfolio and turn it into a full-time business then it will be worth proceeding but most likely through a Limited company vehicle rather than holding the property in your own individual name.

4.2 The 'Sideliner' - Mary, basic rate tax payer (or so she thinks!!!)

Mary is a primary school teacher with 4 buy to let properties. She earns £25,000 salary and makes £9000 net rental profit from her buy-to-let portfolio. Under the old rules she is a basic rate tax payer.

	Tax Rate	Tax Band	Current Rules		2020 Budget Proposals	
			£	Tax		Tax
Salary			25,000		25,000	
Nett rental income before loan interest & finance costs			24,000		24,000	
Interest & finance costs			15,000		15,000	
Taxable income / profit			**34,000**		**49,000**	
Personal allowance	0%	10,600	10,600	0	10,600	0
Basic rate tax	20%	31,785	23,400	4,680	31,785	6,357
Higher rate tax	40%	118,215	0	0	6,615	2,646
Additional rate tax	45%		0	0	0	0
Loss of personal allowance	40%	10,600	0	0	0	0
Tax relief on interest	20%				15,000	-3,000
Total tax				**4,680**		**6,003**
Total nett income (take home)				**29,320**		**27,997**
Percentage change to total nett income	**95%**		*Greater than 100% is an increase in nett income. Less than 100% is a decrease in nett income. 100% means no change to nett income.*			
Effective tax rate over personal allowance				**20%**		**26%**
Percentage change to effective tax rate	**128%**		*Greater than 100% is an increase in effective tax rate. Less than 100% is a decrease in effective tax rate. 100% means no change to effective tax rate.*			

From 2020, her annual mortgage interest of £15000 will no longer be allowed as a tax-deductible expense, therefore her taxable income will increase from £34,000 to £49,000 thereby catapulting her into the 40% tax bracket!

Instead of offsetting the entire mortgage interest cost of £15,000, she will now get a 'relief' of just 20%, ie £3000.

Her net income will drop by 5% and she will pay 28% more tax.

Mary is a classic case which illustrates how almost every property investor is affected by this new tax. Many feel they are not going to be affected because the Chancellor has limited tax relief to 20% (the basic rate of tax), and therefore basic rate tax payers assume they are not affected by true changes. However, because of the way taxable income will be assessed, Mary suddenly becomes in the 40% band without earning a penny extra in income!

4.3 The 'Sideliner' - Victor, 40% tax payer

Victor runs a carpet fitting business. He owns 5 buy-to-let properties and relies on his letting income to supplement his carpet business.

	Tax Rate	Tax Band	Current Rules		2020 Budget Proposals	
			£	Tax		Tax
Salary			40,000		40,000	
Nett rental income before loan interest & finance costs			50,000		50,000	
Interest & finance costs			38,500		38,500	
Taxable income / profit			**51,500**		**90,000**	
Personal allowance	0%	10,600	10,600	0	10,600	0
Basic rate tax	20%	31,785	31,785	6,357	31,785	6,357
Higher rate tax	40%	118,215	9,115	3,646	47,615	19,046
Additional rate tax	45%		0	0	0	0
Loss of personal allowance	40%	10,600	0	0	0	0
Tax relief on interest	20%				38,500	-7,700
Total tax				**10,003**		**17,703**
Total nett income (take home)				**41,497**		**33,797**
Percentage change to total nett income	**81%**		*Greater than 100% is an increase in nett income. Less than 100% is a decrease in nett income. 100% means no change to nett income.*			
Effective tax rate over personal allowance				**24%**		**43%**
Percentage change to effective tax rate	**177%**		*Greater than 100% is an increase in effective tax rate. Less than 100% is a decrease in effective tax rate. 100% means no change to effective tax rate.*			

Victor draws a salary of £40,000 pa so he is already a 40% taxpayer through is non-property earnings. He makes £11,500 profit from his buy-to-let properties.

From 2020, his annual mortgage interest of £38,500 will no longer be allowed as a tax deductible expense, therefore his taxable income will increase from £51,500 to £90,000.

Instead of offsetting the entire mortgage interest cost of £38,000, he will now get a 'relief' of just 20%, ie £7700.

His net income will drop by 19% and she will pay 77% more tax, without making a penny more in actual income!

Those who earn day-job salaries which alone put them in the 40% tax bracket will face additional 'penalties' as their taxable income increases:

- Once taxable income reaches £50,000 pa child benefit starts to taper down
- Once taxable income reaches £100,000 pa you lose you personal annual allowance (currently £10,600)
- Once taxable income reaches £150,000 pa you move into the 45% tax bracket
- If you have children about to go into University, their ability to get a student loan for anything other then just tuition fees will be determined by you taxable income

4.4 The 'Full-Time Landlord'

Janet is a professional full-time Landlord with a portfolio of 22 properties.

	Tax Rate	Tax Band	Current Rules		2020 Budget Proposals	
			£	Tax		Tax
Salary			0		0	
Nett rental income before loan interest & finance costs			125,000		125,000	
Interest & finance costs			50,000		50,000	
Taxable income / profit			**75,000**		**125,000**	
Personal allowance	0%	10,600	10,600	0	10,600	0
Basic rate tax	20%	31,785	31,785	6,357	31,785	6,357
Higher rate tax	40%	118,215	32,615	13,046	82,615	33,046
Additional rate tax	45%		0	0	0	0
Loss of personal allowance	40%	10,600	0	0	10,600	4,240
Tax relief on interest	20%				50,000	-10,000
Total tax				**19,403**		**33,643**
Total nett income (take home)				**55,597**		**41,357**
Percentage change to total nett income	**74%**		*Greater than 100% is an increase in nett income. Less than 100% is a decrease in nett income. 100% means no change to nett income.*			
Effective tax rate over personal allowance				**30%**		**52%**
Percentage change to effective tax rate	**173%**		*Greater than 100% is an increase in effective tax rate. Less than 100% is a decrease in effective tax rate. 100% means no change to effective tax rate.*			

Janet has no salaried income and lives on her £75,000 pa rental profit.

From 2020, her annual mortgage interest of 50,000 will no longer be allowed as a tax deductible expense, therefore her taxable income will increase from £75,000 to £125,000.

Instead of offsetting the entire mortgage interest cost of £50,000, she will now get a 'relief' of just 20%, ie £10,000.

Her net income will drop by 26% and he will pay 73% more tax, without making a penny more in actual income!

4.5 The 'Mega-Landlord'

Sarah is a mega-landlord with a large portfolio. She operates from an office and employs 1 full-time and 1 part-time member of staff. Her net income before loan and finance costs is £200,000 pa and her mortgage interest is £150,000 pa. She lives off the remaining £50,000

	Tax Rate	Tax Band	Current Rules		2020 Budget Proposals	
			£	Tax		Tax
Salary			0		0	
Nett rental income before loan interest & finance costs			200,000		200,000	
Interest & finance costs			150,000		150,000	
Taxable income / profit			**50,000**		**200,000**	
Personal allowance	0%	10,600	10,600	0	10,600	0
Basic rate tax	20%	31,785	31,785	6,357	31,785	6,357
Higher rate tax	40%	118,215	7,615	3,046	118,215	47,286
Additional rate tax	45%		0	0	50,000	22,500
Loss of personal allowance	45%	10,600	0	0	0	0
Tax relief on interest	20%				150,000	-30,000
Total tax				**9,403**		**46,143**
Total nett income (take home)				**40,597**		**3,857**
Percentage change to total nett income	**10%**		*Greater than 100% is an increase in nett income. Less than 100% is a decrease in nett income. 100% means no change to nett income.*			
Effective tax rate over personal allowance				**24%**		**117%**
Percentage change to effective tax rate	**491%**		*Greater than 100% is an increase in effective tax rate. Less than 100% is a decrease in effective tax rate. 100% means no change to effective tax rate.*			

Where do we start on the impact of the budget on poor Sarah!!

From 2020, her annual mortgage interest of £150,000 will no longer be allowed as a tax deductible expense, therefore her taxable income will increase from £50,000 to £200,000.

Instead of offsetting the entire mortgage interest cost of £150,000, she will now get a 'relief' of just 20%, ie £30,000.

Her net income will drop by a whopping 90% and she will pay 491% more tax, without making a penny more in actual income!

4.6 Crunch the numbers on your own portfolio

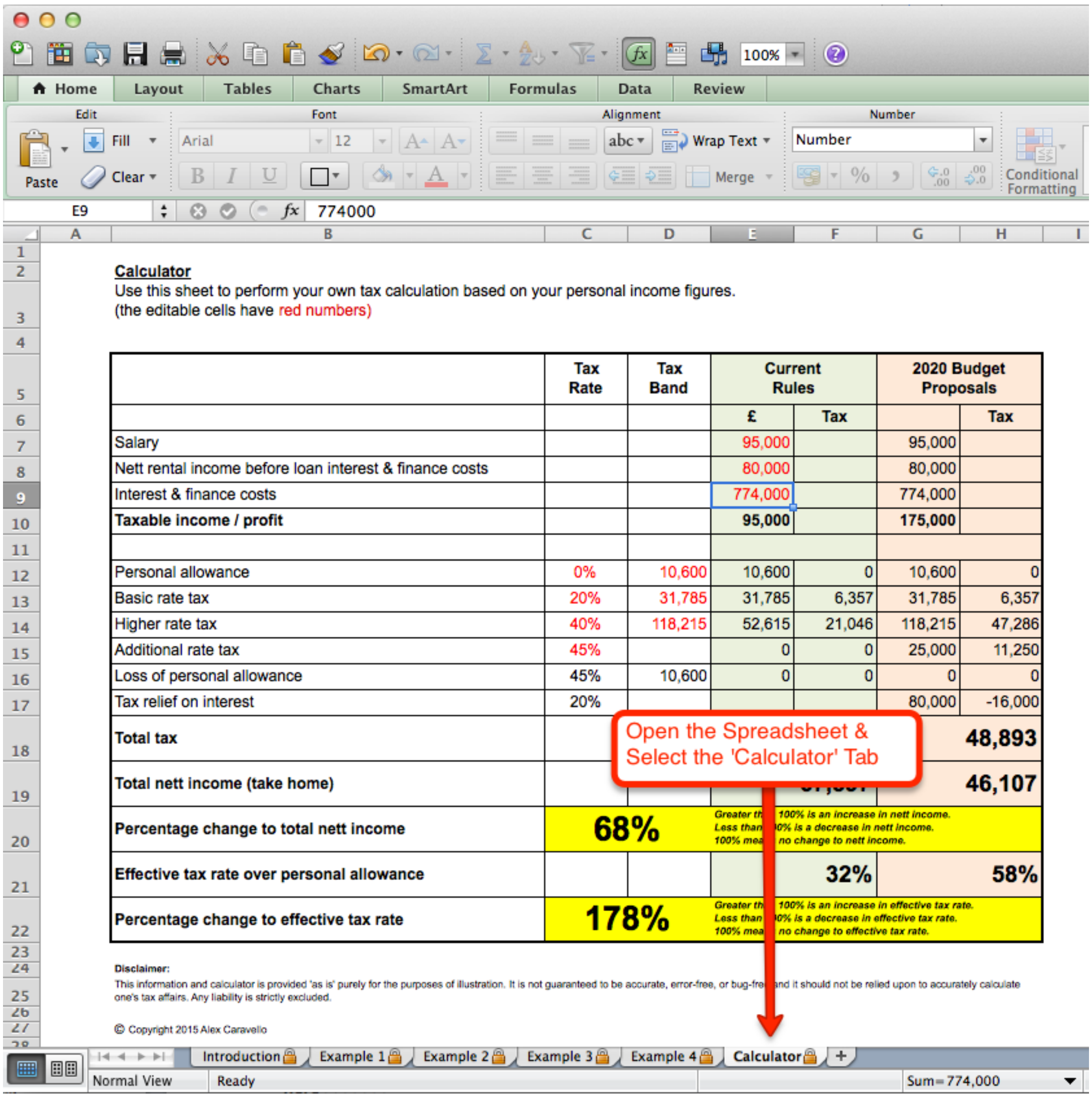
The budget Impact Analyser Tool is an easy to use Excel spreadsheet which will help you to get an idea of how the changes will affect you.

If you have registered for this report you will have received this spreadsheet with the download for the report.

If someone has passed you the pdf of this report, please register for your own copy and you will receive the spreadsheet calculator tool as well as free updates to the report, as the budget aftermath unfolds. <<<<<**To register click here >>>>>>>**

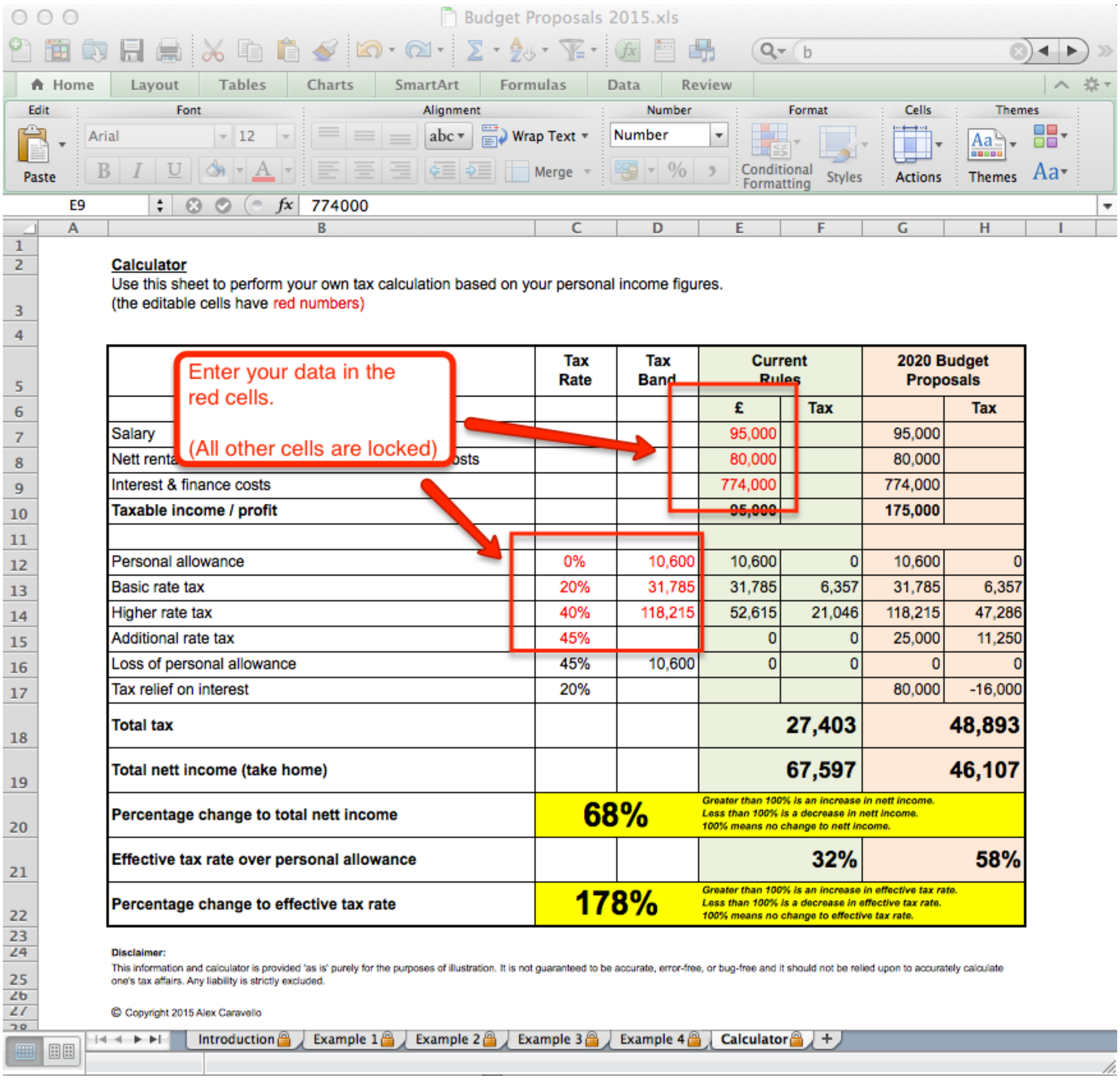
(Before launching the spreadsheet, you probably want to pour yourself a drink and find somewhere nice and quiet!)

When you launch the spreadsheet, select the 'Calculator' tab.



	Tax Rate	Tax Band	Current Rules £	Current Rules Tax	2020 Budget Proposals £	2020 Budget Proposals Tax
Salary			95,000		95,000	
Nett rental income before loan interest & finance costs			80,000		80,000	
Interest & finance costs			774,000		774,000	
Taxable income / profit			**95,000**		**175,000**	
Personal allowance	0%	10,600	10,600	0	10,600	0
Basic rate tax	20%	31,785	31,785	6,357	31,785	6,357
Higher rate tax	40%	118,215	52,615	21,046	118,215	47,286
Additional rate tax	45%		0	0	25,000	11,250
Loss of personal allowance	45%	10,600	0	0	0	0
Tax relief on interest	20%				80,000	-16,000
Total tax						**48,893**
Total nett income (take home)						**46,107**
Percentage change to total nett income	**68%**					
Effective tax rate over personal allowance				**32%**		**58%**
Percentage change to effective tax rate	**178%**					

You can only enter data in the red cells. (The others cells are locked)



Calculator
Use this sheet to perform your own tax calculation based on your personal income figures.
(the editable cells have red numbers)

	Tax Rate	Tax Band	Current Rules £	Current Rules Tax	2020 Budget Proposals £	2020 Budget Proposals Tax
Salary			95,000		95,000	
Nett rental income before loan and finance costs			80,000		80,000	
Interest & finance costs			774,000		774,000	
Taxable income / profit			95,000		175,000	
Personal allowance	0%	10,600	10,600	0	10,600	0
Basic rate tax	20%	31,785	31,785	6,357	31,785	6,357
Higher rate tax	40%	118,215	52,615	21,046	118,215	47,286
Additional rate tax	45%		0	0	25,000	11,250
Loss of personal allowance	45%	10,600	0	0	0	0
Tax relief on interest	20%				80,000	-16,000
Total tax				27,403		48,893
Total nett income (take home)				67,597		46,107
Percentage change to total nett income	68%		Greater than 100% is an increase in nett income. Less than 100% is a decrease in nett income. 100% means no change to nett income.			
Effective tax rate over personal allowance				32%		58%
Percentage change to effective tax rate	178%		Greater than 100% is an increase in effective tax rate. Less than 100% is a decrease in effective tax rate. 100% means no change to effective tax rate.			

Disclaimer:
This information and calculator is provided 'as is' purely for the purposes of illustration. It is not guaranteed to be accurate, error-free, or bug-free and it should not be relied upon to accurately calculate one's tax affairs. Any liability is strictly excluded.

Follow these 3 steps to assess the impact on your finances:

1. Enter your salary income from your day job in cell E7
2. Enter your net rental income before loan and finance costs in cell E8
3. Enter your annual mortgage interest cost in cell E9

(Now you know how these changes impact you, please Sign The Petition if you haven't already done so.)

4.7 … Remember interest rates will rise

Perhaps interest rates will remain at their current record lows for a year or so, who knows. But most commentators would agree that interest rates will rise before we 2020.

The impact analyser tool makes the assumption that interest rates will stay the same. If you factor in rate rises the extra tax paid will be more because perversely, as interest rates go up, your annual interest payments go up, your taxable profit goes up and the tax you pay goes up.

5. Other Budget Changes Which Will Affect Landlords

5.1 Removal of 10% wear and tear allowance

If you rent out unfurnished accommodation, there is no 10% wear and tear allowance.

If the property is let furnished, landlords can deduct 10% of their rent from their profit to account for wear and tear of inventory items such as:

- Moveable furniture such as beds, sofas etc
- Televisions, fridges, washing machines etc
- Carpets, curtains & linen etc

Under current rules landlords can claim this 10% even if they haven't incurred expenditure.

From April 2016 the 10% wear and tear allowance is being abolished all together.

From April 2016 Landlords will claim on a simple 'replacement basis'.

So, if the fridge packs-up, buy a new one and claim the full cost of the fridge as an expense.

5.1.1 Winners & Losers

If you currently spend less than 10% of your gross annual rent on replacing furniture and furnishings, then you will lose out from this change.

If you pay more than 10% of your gross annual rent on replacing furniture and furnishings, then you will be better off from this change.

If at all possible, you may be better off delaying replacing the carpet in your rental property till April 2016, because then you will be able to claim the full replacement cost.

5.1.2 My take on the abolition of 10% wear and tear allowance

I am not sure how bothered I am by the abolition of this relief. I see myself as running a rental business and all I would like to see is that a rental business is on parity with any other type of business in the UK.

If I was, for example running a hairdressing business (or any other type of business), I would not benefit from a 10% of gross sales allowance against tax, without the need to provide any receipts.

However, the loss of this relief combined with the changes to the way mortgage interest is treated make the total impact quite dramatic.

5.2 Changes to dividend taxation for Limited companies

There are major changes to dividend taxation in the budget which will impact Landlords who already own companies or are considering incorporation of their existing portfolio.

From April 2016, each person will have a tax free dividend allowance of £5000 pa. After this they will have to pay an additional 7.5% tax on the dividend income they receive.

The motivation behind this change is to discourage small business owners from taking out dividends as a cost effective alternative to paying themselves a salary and national insurance.

If you own a limited company, the company pays corporation tax. Now you will pay more tax when you draw the money out as an individual.

This is outside the scope of this guide but here is a useful explanation and online calculator.

6. Future direction of the Private Rented Sector (PRS)

6.1 My Crystal Ball

For what its worth, here is my personal view on where this is all heading.

The direction of travel over the next five years is a corporatisation of the PRS in the UK.

Compared to continental Europe, UK rental property is largely owned by private individuals who each own less than 3 rental properties alongside their regular day-job or profession.

At a recent conference, the Group Chief Executive of Legal and General called for, ‘an end to the cottage industry ownership of private rented housing in the UK’

The head of the British Property Federation (BPF) said earlier this year, that there is £30bn of private institutional finance ‘poised’ to enter the market to provide log term private sector rentals to create ‘an American-style rental market where single companies own large portfolios of homes.’

The problem for the big guys is the ‘Mom and Pop’ Landlords with 1 to 5 properties owned by people who have salaried day-jobs. These people are not necessarily relying on their rental income to live on and therefore the big corporates find it difficult to compete with.

The large institutions seem to have been successful in lobbying Government to persuade them that they will be better at providing rental housing than smaller private landlords.

‘…And most importantly, for renters, it will revolutionise the sector, providing greater choice of tenure length, rent certainty and high levels of customer service.’ – Melanie Leech, chief executive, British Property Federation.

I don’t understand how customer service will necessarily improve by having a large corporate landlord. If you are a tenant with a leaking tap, would you rather call your local Landlord on his mobile or wait on hold while you are routed to a call-centre in the Phillipines?

If anyone is in any doubt as to the long term direction of travel for the PRS, take a look at the Housing minister, Brandon Lewis' speech to the RESI housing conference on 9th Sep 2015. (Read full transcript...)

Here are some extracts. What's interesting is the tone. Compare the language used when talking about big business against the language used when referring to private individual Landlords.

Extracts From Housing Minister Brandon Lewis' Speech

{Plenty of support and public money for the large corporates...}

...The government will also continue to play its part in creating a bigger, and better private rented sector, working through local partners.

Increasing supply is the best way of improving quality and choice for tenants.

That’s why we introduced the £1 billion Build to Rent fund, to build 10,000 homes specifically for private rent....

{And the more regulation for the private individual landlords...}

... The government will continue to facilitating investment in private rented sector, while using our powers to tackle the small minority of landlords that continue to offer a poor service and give the whole industry a bad name.

Standards in the sector have been steadily improving, and customer satisfaction is high, but there is still room for improvement.

The vast potential for investment in the sector will only be realised if rented homes have a reputation for good management.

That is why we recently published a discussion document setting out proposals that include a blacklist of rogue landlords and letting agents, banning orders for the worst offenders, extending Rent Repayment Orders to cover poor property conditions and illegal eviction, and the introduction of civil penalties...

At present 70% of Landlords own less than 5 properties and own them as individuals. Over the next 5 years, large corporates and institutions will dominate the PRS.

Todays ‘Full-time landords’ and ‘mega-landlords’ have the opportunity to restructure along corporate lines to set them up as strong regional independents.

Over the last 30 years, many industry sectors have gone through periods of transition where mom and pop business have been driven out by large corporates. For example the mom and pop corner shop, newsagent, pharmacist, coffee shop, hairdresser etc.

It now looks like the turn of the buy-to-let sector to go through this period of transition.

What’s unfair, (and quite different with what’s happening to the buy-to-let sector), is that Government is playing a role in changing the rules of the game in favour of the big corporate players.

The other aspect to this is that small private landlords are perceived to be competing with first time buyers for starter homes, where as the large corporates would not buy these, they would instead build large blocks of homes specifically for rental.

6.2 Will the Government U-turn?

… I am not too sure they will.

Government seems to have public opinion on their side. If you read any online newspaper article about Landlords or buy-to-let, just scroll down to the comments section and have a read. Here are some comments on just one article!

Simon → Past Tory • 21 hours ago
your greed has pushed up house prices so our children cant afford them, no I hope you are ruined so to put people off doing what you are doing, get a proper job.
1 ^ | v • Reply • Share ›

admorethanenuff → CrankyMiddleAgedGuy • 5 days ago
It's not a business. BTL produces nothing for the UK. It makes wage slaves out of a generation. Get a proper job mate. Stop kidding yourself. BTL is in its death throes and not before time. Owner occupiers don't benefit from a massive tax break. Nor should BTL.
6 ^ | v • Reply • Share ›

Thayaric → CrankyMiddleAgedGuy • 11 days ago
Landlords are parasites. They have zero productivity and try to dress their speculation in asset values up as a business when it is really nothing of the sort, it is purely rent-seeking living off the backs of other people's productivity.

Guest • 11 days ago
At last all the lazy BTL "entrepreneurs" will lose their tax payer funded advantages and have to work for a living like everyone else.
2 ^ | v • Reply • Share ›

progrock → SMB "Romani ite domum" • 11 days ago
Hard to feel sorry for people who decided to "invest" in a parasitic "industry" that exploits the young.
6 ^ | v • Reply • Share ›

Owbis. • 11 days ago
Hopefully the next step will eliminate the tax relief altogether. The party has gone on far too long.
8 ^ | v • Reply • Share ›

mcray • 7 days ago
This is a very popular measure and will go some way to levelling the property market playing field. The Tories have created a property Ponzi and they need to slow things down before it crashes...this will help and it will collect much needed tax revenue.

The timescale BTL 'investors' have been given to sort out their affairs is generous, they have between two and five years to sell if they want to!
Lets face it, they've had a good run.

7. Solutions

7.1 Overview

What follows are some ‘ideas’ as to the possible solutions for each investor ‘type’.

Use this as food for thought and consult your trusted advisers on how these ideas can be applied to your individual circumstances.

7.2 What is ‘Incorporation’ in a nutshell

Individuals are taxed at rates up to 45%. Limited companies are taxed at 20% (soon to reduce to 18%). If your rental profits are made in a limited company you will pay less corporation tax then you would income tax if the property is held personally. Also mortgage interest on rented properties held by a company are exempt from the new tax (ie the full mortgage interest can be claimed as an expense against the company’s rental profit.)

Incorporation is the process of selling a property portfolio from individual ownership to Limited company ownership. Once the sale is completed, Limited Company corporation tax rates will apply to rental income and all mortgage interest can be offset as an expense.

The transfer of an individually held property portfolio to a limited company is a sale. As such:

- The sale needs to be at market value;
- The seller will pay capital gains at the point of sale;
- The buyer (ie the Ltd company), will pay stamp duty (SDLT) on the purchase.

This can be an expensive process unless you are eligible for relief on CGT and/or SDLT. Eligibility for relief will depend on which ‘type’ of investor you are. Generally full-time landlords and mega landlords should be able to claim this relief, but sideliners will not.

Owning your rental portfolio in a limited company is not a one-size fits all solution either. The company will pay corporation tax on rental income, and you will have to pay personal tax when you draw the money out of the company. A similar issue applies when you sell a property. The company will pay tax when you sell and you will pay tax personally when you draw the money out. Whether owning property in a limited company is right for you depends a lot on your investment strategy and individual circumstances.

Generally speaking, owning property in a limited company is tax efficient if:

- you don’t need to draw much income from the company, to live on and you are looking to reinvest rental profits in growing the portfolio within the company;
- You plan to hold the property for the long term;
- You have no plans to wind-up the company any time soon.

7.3 Can I incorporate and keep my existing buy-to-let mortgages?

If you incorporate your existing property into a limited company, you can keep your existing mortgages in tact. The way to do this is with a Declaration of Trust where legal title stays with you but the beneficial interest is transferred to the Limited company. (A lawyer should draft the Trust document for you.) Once this is done, it is important that the company bank account is used to receive all rents and make mortgage payments. You should be aware that you are obliged to notify your lender that you are doing this. (Notification is a lender issue and not a tax issue.)

7.4 Solutions for the ‘New Starter’

I have been speaking at industry events like the Property Investor Show since 2003, and one of the most frequently askes questions used to be, ‘should I buy property in my own name or in a limited company’. The advice I offered was for most people,

> *“buying property as an individual is most tax efficient and offers most flexibility in terms of future disposals. When you have a portfolio of a dozen or so then you should consider setting up a company.”*

Now this advice has changed. Before even making an offer to purchase your first property, you need to have a clear idea of what holding structure you are going to use to buy it.

Below are some ideas to think about and consider. I strongly advise you to speak with your accountant to setup the most appropriate holding structure that's right for your circumstances. This should be done before making an offer to buy a property.

7.4.1 Setting up a company for property trading

If you are looking to buy and sell property (ie trade), it may be better to do this through a separate limited company, which you setup specifically for trading. If you keep your property trading activity in a separate company from your property rental business, then your property trading business could be eligible for entrepreneur’s relief, which may be useful at a later stage.

7.4.2 What's your end-game for buy-to-let?

If your intention is that at some time in the future, buy-to-let will become your full-time business and you intend to reinvest rental profits in further property, then you should consider making your new purchases through a new limited company.

For buy-to-let investors who just intend to buy a few properties along side their day-job, a lot will depend on your own individual tax position. These investors may be better off buying as individuals but with lower borrowings (thereby limiting the tax).

Commercial property (such as shops and offices), may be worth a look at since mortgage interest on these is outside the scope of the tax.

7.4.3 Setting up a company for your buy-to-let portfolio

If you are setting up a Limited company to build a rental portfolio, consider making a directors loan to the company to provide it with start-up capital for deposits or refurbishments. When your company starts to turn a profit, drawing on your directors loan account is tax free.

As mentioned earlier, there have been sweeping changes to dividend taxation. Every person now has a £5000 pa tax free dividend allowance. If a new company is being formed, it may be tax efficient to setup what accountants refer to as a 'Family Investment Company'. This is a limited company where various family members have shareholdings and the articles of association are specially drafted to create alphabet shares. Alphabet shares can be used to create a separate share class for each family member. The board can then choose to distribute different levels of dividend to the different classes of shareholder to allow for maximum flexibility. (There is a lot more to Family Investment Companies, such as inheritance tax planning, but this is outside the scope of this report.)

WEALTH WARNING: You may already run a Ltd company for another business. Be sure to take advice before buying rental property in your existing non-property trading company. Doing so will cause you tax problems later down the line, and you should take proper advice before doing so.

7.4.4 Don't worry about ATED

A few years back, the Government brought in ATED (Annual Tax on Enveloped Dwellings). The problem they were trying to solve was that of multi-million pound residential property being owned in a Limited company, where the main objective was to avoid stamp duty. For example, if you owned your multi-million pound home in a limited company, and sold the company instead of the property, the buyer would pay stamp duty on the value of the shares. Stamp duty on share transactions is just 0.5%.

To discourage this, the Government introduced ATED which is an annual charge on limited companies, which own residential property.

However, the Government quickly realised that this 'sledgehammer' would have unintended consequences on Limited companies owning buy-to-let property. The proposal was later amended and an exemption made for limited companies which own residential property rented out to unconnected parties.

I mention this because Government have a record of making amendments where they later become aware of unintended consequences. (Hopefully they will do the same with this mortgage interest tax if enough of us Sign The Petition.)

7.5 Solutions for the 'Sideliner'

The sideliner with a small existing portfolio of buy-to-lets is potentially the most clobbered by this new tax.

7.5.1 Incorporate and pay CGT and SDLT

Sideliners are free to incorporate by selling their property to a limited company. But they most likely will have to pay CGT and SDLT. If your portfolio is based in the North of England, benefits from high yield, has had little capital gain and each property is low value, it may be worth incorporating and taking a small hit on CGT and SDLT.

7.5.2 Sell-up or pay down debt

There is no sugar coating this but a few 'sideliners' will have to consider selling some of their portfolio or paying down some debt or a combination of the two. Some investors have bought property for long-term capital appreciation and are making minimal monthly rental cash flow. This may be due to a combination of factors such as:

- High LTV borrowings;
- lower yielding single-family lets, in London and the South East;
- high costs such as employing managing agents to do everything;
- flats in leasehold blocks with high service charges.

In such cases, investors could easily find themselves not generating enough rental cash-flow to pay the tax and may end up losing money.

7.5.3 Buy with low or no debt

The simple way to avoid the new tax on personally held mortgaged buy-to-let property, is to own it with no (or less) debt. Consider:

- Whether its more profitable to buy 1 property outright for cash rather than own 3, each with 75% interest only mortgages;
- Taking capital and interest repayment mortgages;
- Taking out lower LTV loans, say 50% or less. The less mortgage interest you pay, the less tax you will pay.

7.5.4 Make full use of your (SIPP) pension pot

There have been some changes to pensions in the past year which are worth looking into. Those over 55 years old and drawdown their pension pots (although there are limits on what you can draw down without paying tax.) Some will find it advantageous to draw money from their pension pot to reduce borrowings on high-interest buy-to-let loans. This will certainly reduce the effects of the new tax and may keep certain buy-to-let properties cash-flow positive.

SIPPs (Self Invested Personal Pensions) can be used to make loans to unconnected parties be they individuals or companies. Sideliners with a pension pot may benefit from offering loans to established investors and developers, earning interest in their tax efficient SIPP pension pot wrapper.

7.5.5 Invest indirectly by joint venturing or giving loans

As part of an overall investment strategy it may be worth investing in property indirectly, such as making loans to other investors or developers or even through crowd funding sites.

If you have an existing limited company, which has retained profits, it can be efficient to loan money out in this way. Do take professional advice if you expect your loan interest income to exceed 25% of your company’s overall profit.

7.5.6 Remortgage

There are still plenty of BTL mortgage products available. It is a good idea to take a good look at existing loans to see if it is possible to remortgage to better rates. As time goes on, I believe many of the buy-to-let products on the market today, will be withdrawn and replaced with products offering less loan to value and requiring higher levels of rental coverage. (Once the tax kicks in, lenders will have to set their rental coverage criteria not just to allow for borrowers contingency and voids but also to pay the tax.)

7.5.7 Quit the day-job!

Perverse as it may sound, you may be better off quitting your job! That's because of the way you can be catapulted into a higher tax band because of the amount of your annual mortgage interest payments. (Do crunch your figures thoroughly before taking this step.)

There was a recent article in the Daily Telegraph (22 Aug 2015) where a school teacher owning a few buy-to-lets, is considering doing just that!

7.6 Solutions for the 'Full-time Landlord'

There are two solutions, which involve setting up a company to undertake lettings and management services for your portfolio, but the underlying property ownership remains in your individual name.

7.6.1 Setup your own lettings agency

If you incorporation is too costly (in terms of CGT and SDLT) and you have less than 10 properties, then you may benefit from setting up your own lettings agency. The idea of doing this is that you reduce your personal profits by letting and managing property in a Limited company and charging yourself a fee. Key points to consider are:

1. The agreement between you and your company for provision of lettings and management services should be an arms length agreement on terms which you would expect from regular agent;
2. It will help that you are not the only client of your lettings agency and you act for some other landlords letting and managing their property;
3. If the turnover of your lettings agency exceeds the vat threshold (currently £82,000), then you will have to register for VAT and you will have to do your figures to see if this is still worthwhile;
4. Take professional advice before setting up in this way just to ensure you don't fall foul of HMRC General Anti Avoidance Rules (GAAR), {see below}.

7.6.2 Operating a guaranteed rental scheme

This is where you lease your property for say 5 years to your limited company and the company pays you a monthly guaranteed rent. Key points to consider:

1. The agreement between you and the company must be on commercial lines. As an example, look at 5 year lease agreements with Councils or Housing Associations as a template. These normally offer around 75% of market rent and the company takes on the risk of voids and internal repairs;

2. This could be particularly advantageous if the company lease the property from you on a rent as a single unit and then multi-lets on a room-by-room basis;
3. It would help if your company has some non-connected rent-to-rent clients with a similar guaranteed rental agreement to yours;
4. One advantage with this strategy is that rent is not vat rateable. Which means that it doesn't matter how much the company makes from the guaranteed rental scheme, it will not trigger VAT registration;
5. Take professional advice before setting up in this way just to ensure you don't fall foul of HMRC General Anti Avoidance Rules (GAAR), {see below}

7.6.3 S162 Incorporation relief

If full-time landlords meet certain criteria, they can incorporate their rental business into a limited company with no CGT payable at the time of incorporation. Incorporation relief is a roll over relief where the capital gain on the rental property is 'rolled-up' into the value of the shares issued by the Limited company. The advantage for the full-time landlord is capital gain is deferred until the time the company is eventually sold or wound up.

The HMRC for some time took the view that many full-time landlords were 'passive' investors rather than running a business. Landlords who, 1) have a significant number of property; 2) have an office and 3) employ staff, can demonstrate much more easily that they run a business.

However the issue is when (in the eyes of the HMRC), does a full-time landlord 'graduate' from being a passive investor to running a rentals business.

In 2013 the tribunal considered the case of Ramsay v HMRC (2013) UKUT 0226. (This is worth a read if you need to go down this route)

Mr & Mrs Ramsay had 10 flats in a single building and spent approximately 20 hours per week on maintenance, management etc.

The tribunal had to decide whether:

> *"the activities were a 'serious undertaking earnestly pursued' or a 'serious occupation', whether the activity was an occupation or function actively pursued with reasonable or recognisable continuity, whether the activity had a certain amount of substance in terms of turnover, whether the activity was conducted in a regular manner and on sound and recognised business principles and whether the activities were of a kind which, subject to differences of detail, are commonly made by those who seek to profit by them."*

The Upper Tribunal decided that the activities undertaken were sufficient in nature and extent for them to qualify as a business for the purpose of s162, and that they went beyond those that a mere passive investor would undertake. In those circumstances the rollover claim was allowed.

My personal take based on experts I have spoken to:
There are many very good reasons why people want to incorporate a personally held portfolio into a limited company and people have been successfully doing this for some years. The reason why the HMRC challenged Ramsay was that they felt it borderline and wanted to determine the exact point at which a full-time landlord can be regarded as running a business rather than having a passive investment property portfolio. The key points in Ramsay which won them through, were as follows:

- They had 10 properties, which was deemed borderline. But if you have more than 10 and they are preferably in separate buildings, you should be over the Ramsay threshold
- The Ramsay's had no other job and could demonstrate they spend 20 hours a week in the business. They identified a list of 17 activities which they undertook including lettings, management and maintenance. (Although it will be probably be ok if you outsource maintenance works, you should be doing your own lettings and management. If you outsource this to a lettings agent then it could be deemed you are a passive investor and not a business.)
- They were able to demonstrate that some of the activities they undertook were over and above what a passive investor would undertake. These included engaging architects and applying for planning permission

Although the Ramsay case is by no means a definite firm precedent, the more you can exceed the Ramsay case criteria, the more unlikely your claim for incorporation relief will be challenged.

If you are planning to go down this route, get professional advice from a tax planning firm with specific experience and track record of incorporating personally held property portfolios. Your advisers will most probably seek advance clearance from the HMRC on what you want to do and if it is a complicated case, may obtain a tax barristers opinion. (All this advice won't come cheap and is not something you will be able to do yourself.

….Just for laughs, consider this scenario!!

Bob has 7 personally owned buy-to-lets, does all the letting, management and maintenance himself, but does not have enough going on for the HMRC to consider his activity as a business for incorporation relief.

Sue set up a limited company, and built a portfolio of 7 buy-to lets within the company. She uses a letting agent who does everything for her. All Sue does is open her monthly landlord statement from her letting agent.

In the eyes of the HMRC, Sue has a business and can claim all her mortgage interest as a business expense, while Bob cannot!!!!

7.6.4 Stamp Duty & Land Tax

This is another area where specialist advice will need to be sought to minimise and/or eliminate SDLT on incorporation.

If the beneficial owners of the property and the beneficial owners of the company are the same, then you should be able to get HMRC clearance that no SDLT will be payable. For example, if husband and wife own all the property 50:50 and husband and wife own shares in the company 50:50, then there is in effect no change of ultimate beneficially owner.

Once again, your professional advisers will be able to obtain advance clearance on what you want to do.

If stamp duty is payable, then check if you can benefit from MDR (Multiple Dwellings Relief). Multiple Dwellings Relief applies when several dwellings on one land registry title are treated as an individual property for SDLT. For example, lets say a single freehold building is worth £480,000. The building is split into 4 flats (ie separate dwellings). Therefore each dwelling is worth £120,000 which, is under the £125,000 stamp duty threshold, so no stamp duty would be payable. (Many solicitors haven't come across this relief and I often have to 'direct' them to the HMRC website!)

7.7 Solutions for the 'Mega-Landlord'

The mega-landlord should consider incorporation. The more a Landlord is able to exceed the Ramsay criteria, the more a claim for incorporation relief is likely to be successful.

So if the Landlord has say 50 plus properties, operates from an office, employs staff, has a website etc, it is pretty clear that it is a business.

Once again specialist advice will be essential.

7.8 Anti-Avoidance Rules and GAAR (General Anti Abuse Rule)

During all my research I have been presented with one or two 'schemes'. However, I am not convinced there is a one size fits all 'scheme', which will address all the issues Landlords face. Tax avoidance 'schemes' have been subject to specific anti-avoidance legislation, GAAR.

It's therefore important to understand what GAAR is. (Have a read of the HMRC document on GAAR). In summary, (quoted directly from this document), the target of GAAR is follows:

> B3.1 The primary policy objective of the GAAR is to deter taxpayers from entering into abusive arrangements, and to deter would-be promoters from promoting such arrangements. There may be tax avoidance arrangements that are challenged by HMRC using other parts of the tax code, but if they are not abusive they are not within the scope of the GAAR.
>
> B3.2 If a taxpayer is undeterred, and goes ahead with an abusive arrangement, then the GAAR operates so as to counteract the abusive tax advantage which he or she is trying to achieve. The counteraction that the GAAR permits will be a tax adjustment which is just and reasonable in all the circumstances. The appropriate tax adjustment is not necessarily the one that raises the most tax.

Several high profile celebrities have been targeted for falling foul of GAAR and these cases have been widely reported in recent years. In some cases they have had to repay millions to the HMRC because they were found to have entered into an aggressive tax avoidance scheme.

Just as it is essential to understand what the GAAR is targeted at, so it is equally essential to understand what it is not targeted at.

B4.2 Underlying the GAAR legislation is the recognition that, under the UK's tax code, in many circumstances there are different courses of action that a taxpayer can quite properly choose between. The GAAR is carefully constructed to include a number of safeguards that ensure that any reasonable choice of a course of action is kept outside the target area of the GAAR.

B4.3 To take an obvious example, a taxpayer deciding to carry on a trade can do so either as a sole trader or through a limited company whose shares he or she owns and where he or she works as an employee. Such a choice is completely outside the target area of the GAAR, and once such a company starts to earn profits a decision to accumulate most of the profits to be paid out in the future by way of dividend, rather than immediately paying a larger salary, is again something that should in any normal trading circumstances be outside the target area of the GAAR.

7.8 Finding your own solution

If you are buying property from this point forward, decision making is simple. We know what the new rules are and can make an informed decision as to what holding structure we need to put in place for the properties we wish to purchase.

However those with a 'legacy portfolio', (ie a portfolio bought in individual names over a period of several years), have just had all the rules of the game changed. Restructuring a legacy portfolio will almost certainly require a tailored solution.

This guide presents some general solution ideas. **Each person will have to consult with their own professional advisors for specific tailored advice before implementing any solution.**

In seeking professional advice I would recommend that:

- any advice taken is written and insurance backed;
- any advice sought on incorporation should be from an established firm of tax specialists with specific experience and track record of incorporating personally held property portfolios.
- a second professional opinion be sought;
- if you are in the mega-landlord category, consider obtaining a written opinion of a specialist tax barrister.;

- if its possible, seek advance clearance from HMRC of what you intend to do.

Do also consider whom you are getting your advice from. Many property investors use a small or one-man band accountancy firm to do their tax returns, which is fine. The problem is that when you ask them for tax advice, they are more like your GP in that they know something about everything but often don't know the details.

Now more than ever, you need seek out specialists who offer tax advice especially for the property sector. These will usually be medium sized multi-branch practices with more than 5 partners and a partner who deals specifically with the property sector. (Keep your existing people to do you tax returns if you wish, but find specialists to provide you with tax advice.)

Each 'idea' presented in this guide, will need tailoring in its implementation to suit your specific circumstances. For this you will need specialist advice.

7.9 There is no magic pill

If you are offered any 'scheme', which 'sounds to good to be true' or appears to be a 'one size fits all' solution, treat with initial scepticism and have it thoroughly checked out by your trusted advisers.

Most of the 'flakey' schemes being touted can be easily ripped apart by any professional adviser.

They may sound great but they could end up being a lot more hassle than they are worth.

8. Conclusions and the way forward

Firstly, don't panic. If you have reached the end of this report then you have at least taken the time to educate yourself and understand the impact of the changes.

8.1 Campaign for change

If you haven't already done so by now, please Sign The Petition.

Although I don't expect a full u-turn, they could make the changes fair for existing property owners. One of the basic principles of taxation is that changes are not retrospective, otherwise it's impossible for anyone to plan. If the Government wishes to change the rules, then it should apply to new loans going forward. It is very unfair on existing property owners who now have to deal with their legacy portfolio, which will be expensive and complicated.

In April's budget, the Government bought in a new rule making capital gains tax payable by non-resident owners of UK property. So that this change isn't retrospective, this tax only applies to capital gains from the date of the rule-change ie April 2015., irrespective of how long ago the property was bought.

In the same way, it would make sense to implement these rules only on new loans for new rental properties or remortgages on existing properties. This will take away the retrospective (and unfair), nature of this tax in the way it torpedoes individual property investors existing financing arrangements.

My guess is that the banks will lobby for this too, as it will be in their interest. For example, if a bank has given you a 35 year 75% LTV buy-to-let mortgage, then after 2020 your loan is inherently more risky for them to have on their loan books. This is because you have an extra tax to pay, without any extra income to pay it from. If the markets start to see these existing loan books as more risky, it will have an effect on their share price.

8.2 Raising rents

There is a lot of talk doing the rounds that landlords will pass on the extra tax to tenants by raising rents.

I don't think this will happen for several reasons:

a. For a 40% tax payer, the new mortgage interest rules combined with the loss of 10% wear and tear allowance mean that rents will have to increase by a minimum of 30% if the Landlord is to preserve the same profit margin as today. For tenants rent already takes a considerable 'share of wallet' and I am not convinced tenants have the capacity to pay much more.
b. The market will not let you increase rents by so much. There will be plenty of Limited company landlords and build-to-let institutional landlords who will be paying lower taxes than individual landlords and will not have the same driver to increase rents as you do

8.3 Look for cost savings

When I attend networking events around the country and speak to investors, everyone likes to talk about the new deals they are doing. This is the 'sexy' end of the business and what most of us are passionate about.

In the past, because all mortgage interest was a business expense coupled with the fact that the market has been rising, it has always been more profitable to focus on doing the next deal rather than on driving cost efficiencies in the existing portfolio.

Another way of looking at these new rules is that we now have to make sure that for every £1 of mortgage interest we pay, we maximise our income and minimise our operating costs.

If you have a portfolio of 7 or more properties, there will be plenty of 'low hanging fruit' cost savings for you to strip out of your business. You should be able to strip out 15% from your operating costs, without too much effort.

8.4 Keep informed and get proper advice

If you haven't already done so, subscribe for free updates to this report at www.YourPropertyEmpire.com. I will keep you posted on news, new ideas and thoughts on how to address the budget changes.

>>>>>My research is ongoing and I will be publishing regular free updates over the coming months. Make sure you register at YourPropertyEmpire.com to receive:

- regular free updates;

- bonus chapters;

- case studies of affected individuals.<<<

I am speaking on this subject at various property networking events around the country. Do come along with your questions and to speak with like minded property investors. For a full calendar of forthcoming events visit www.calendar??????.com.

If you run a networking event, and want me to speak at your event, please get in touch at ?????.

… And finally, before you take any action with forming companies etc, do seek proper professional advice