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Summary

	Current	2020/21	Proposed - LLP	Proposed - Ltd Company	Potential Increase in Tax / Savings	
Income Tax	70,294	101,161	70,294		30,867	Potential Increase in tax liability per year if things remain as they are
Corporation Tax				46,207		
Total		101,161		46,207	54,954	Potential saving in income/corporation tax liability per year by restructuring
Capital Gains Tax	1,265,647	1,993,212		445,678	1,547,535	Potential Capital gains tax saving by restructuring
Stamp Duty Land Tax	523,000			-	523,000	Potential SDLT saving by restructuring into LLP

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Income Tax Calculations Illustrating the effect of Changes in the Calculation of Rental Properties from April 2016 onwards

Based on 2014 Tax Year Figures

	2015/16		2016/17		2017/18		2018/19		2019/20		2020/21	
	£	£	£	£	£	£	£	£	£	£	£	£
Turnover												
Rental income		417,300		417,300		417,300		417,300		417,300		417,300
Administrative expenses												
Annual rental expenses	8,938		8,938		8,938		8,938		8,938		8,938	
Loan interest	150,209		150,209		112,656 ***		75,104 ***		37,552 ***		- ***	
10% wear and tear allowance	2,940		- **		-		-		-		-	
		(162,087)		(159,147)		(121,594)		(84,042)		(46,490)		(8,938)
Rental Profits		<u>255,213</u>		<u>258,153</u>		<u>295,706</u>		<u>333,258</u>		<u>370,810</u>		<u>408,362</u>
Less Personal Allowance *		(31,800)		(33,000)		(33,000)		(33,000)		(33,000)		(33,000)
Taxable		<u>223,413</u>		<u>225,153</u>		<u>262,706</u>		<u>300,258</u>		<u>337,810</u>		<u>375,362</u>
Tax Thereon:												
At Basic Rate (20%) *		19,071		19,200		19,200		19,200		19,200		19,200
At Higher Rate (40%) *		51,223		51,919		66,940		81,961		96,982		112,003
Less Loan Interest Basic Rate relief		-		-		(7,510)		(15,021)		(22,531)		(30,042)
Tax Liability		<u>70,294</u>		<u>71,119</u>		<u>78,630</u>		<u>86,140</u>		<u>93,651</u>		<u>101,161</u>

* Based on actual rates for 2015/16, and 2016/17 Rates & Allowances used for later years

** 10% Wear and Tear allowance will be withdrawn relief will be available for purchases of replacement assets under the renewals basis

*** Landlords will be able to obtain relief as follows:

- in 2017-18 the deduction from property income (as is currently allowed) will be restricted to 75% of finance costs, with the remaining 25% being available as a basic rate tax reduction.
- in 2018-19, 50% finance costs deduction and 50% given as a basic rate tax reduction.
- in 2019-20, 25% finance costs deduction and 75% given as a basic rate tax reduction.
- from 2020-21 all financing costs incurred by a landlord will be given as a basic rate tax reduction

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Illustration of Income Tax v. Corporation Tax of the Proposed Restructuring

	Current	2020/2021	Proposed		Tax Saving Per Year Current compared with LLP	Tax Saving Per Year Current compared with Ltd Co.	Tax Saving Per Year 2020/21 compared with Ltd Co.
	Personal		Property LLP 2015/16	2016/17 and Later Years Ltd Company (Director/ shareholder (salary to NI))			
<u>Personal Tax</u>							
Rental Profits	255,213	408,362					
Partnership Profits			255,213				
Income - Salary and dividends				46,800 **			
Less Personal Allowance	(31,800)	(33,000)	(31,800)	(46,800)			
Personal Tax	70,294 *	101,161	70,294 ~	-			
<u>Corporation Tax</u>							
Company Profits				231,033 \$		24,088	
Corporation Tax				46,207			54,954
Repayment of loan (tax free)				138,027 #			
Total Net Income In Hand	184,919 ***	156,992	184,919 **	192,887			

Notes

* Based on actual rates for 2015/16, and 2016/17 Rates & Allowances used for later years

** Capped at basic rate band, to allow these to be drawn by the individual tax free

*** Profits available to individuals for personal use

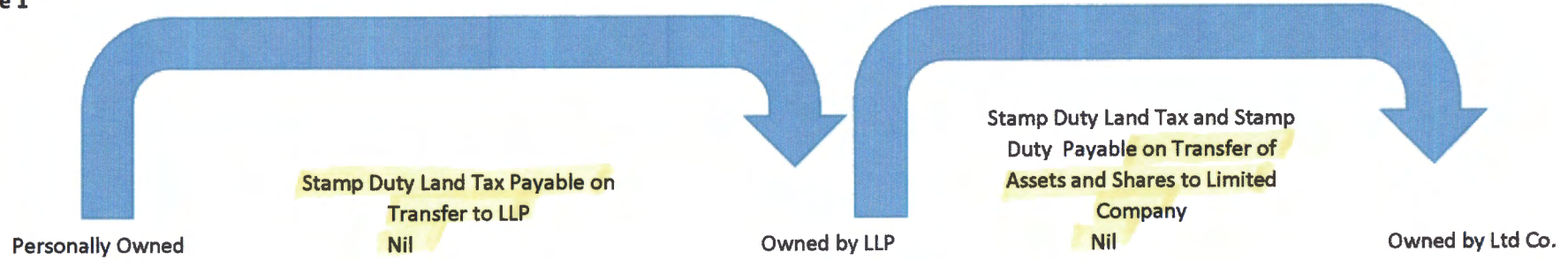
\$ Company profits are representative of rental profits less small directors salary (£8,060)

~ For the first 18 months the tax will continue to be at income tax (20/40%) rates

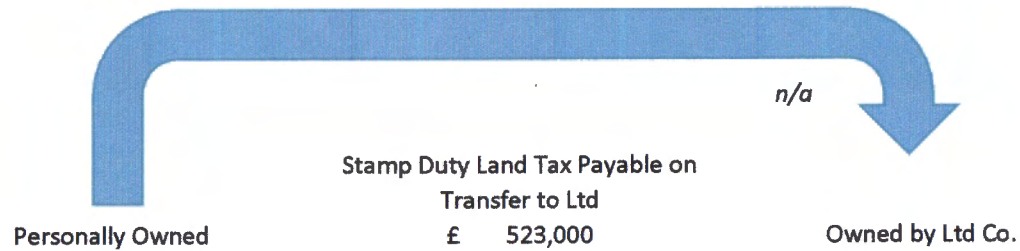
This figure can be drawn tax free from the loan account that will be created on incorporation to top up personal income needs - in this example it has been set to distribute the total profits to the individuals

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Stamp Duty Implications of Property Transfer

Alternative 1



Alternative 2



Tax Saving

£ 523,000

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Estimated Capital Gains Computations

Sold Immediately before property values increase

	Current - if you were to sell the properties now	Proposed - Property Transferred into LLP but not sold #	Proposed - Sold via Ltd		Capital Gains Tax Saving
Current Market Value	10,670,000	10,670,000	10,670,000 @		
Less Base cost	6,138,731	6,138,731	10,670,000 *		
Gains	4,531,269	4,531,269	-		1,265,647
Less: Annual Exemptions	(11,100) Assuming no other gains	(11,100)	N/a **		
Less: Indexation Allowance	N/a	N/a	- ***		
Chargeable gains	4,520,169	-	-		
Capital Gains Tax at 28%	1,265,647	28% -	20% - ****		
Proceeds in Hand After Tax	9,404,353	n/a	10,670,000		

- * The values at which the assets are carried in the corporate structure is the market value at which they were introduced to the LLP, as opposed to the CGT cost previously carried by the individual
- ** Annual exemption not available to companies
- *** Indexation Allowance allows for the effects of inflation when calculating the chargeable gains of companies or organisations
- **** In a corporate structure gains are taxable at the corporation tax rate (currently 20%) as opposed to the CGT rate 28%
- # If the properties are sold within the LLP, the LLP will inherit the individuals base cost and a chargeable gain would arise.
- @ Assets would need to be valued on transfer into the Ltd company, if there has been an increase in the market value at this time, there will be an immediate charge to capital gains

Assuming properties Sold After 5 years

	Current - if you were to sell the properties After 5 Years	Proposed - Sold via LLP after 5 Years	Proposed - Sold via Ltd after 5 Years		Capital Gains Tax Saving
Current Market Value	13,268,447	13,268,447	13,268,447 *		
Less Base cost	6,138,731	6,138,731	10,670,000 **		
Gains	7,129,716	7,129,716	2,598,447		1,547,535
Less: Annual Exemptions	(11,100) Assuming no other gains	(11,100)	N/a ***		
Less: Indexation Allowance	N/a	N/a	370,058 ****		
Chargeable gains	7,118,616	7,118,616	2,228,389		
Capital Gains Tax at 28%	1,993,212	28% 1,993,212	20% 445,678 *****		
Proceeds in Hand After Tax	11,275,234	11,275,234	12,822,769		

- * Current Annual Change in House Prices is 5.6% per House Price Index report published by Nationwide (August 2016) http://www.nationwide.co.uk/~media/MainSite/documents/about/house-price-index/2016/Aug_2016.pdf
- ** The values at which the assets are carried in the corporate structure is the market value at which they were introduced to the LLP, as opposed to the CGT cost previously carried by the individual
- *** Annual exemption not available to companies
- **** Indexation Allowance allows for the effects of inflation when calculating the chargeable gains of companies or organisations in this calculation it has been assumed that the RPI has increased by an average of 0.1 per month (0.1 is the average RPI increase over 12 months to October 2015)
- ***** In a corporate structure gains are taxable at the corporation tax rate (currently 20%) as opposed to the CGT rate 28%