



Audited investment case

For non-UK residents



UK tax advantages under company ownership

	Personal ownership	Company ownership
Same taxes on property purchase		Same taxes (e.g., SDLT) as personal ownership if you rent out your property to 3 rd parties =
Deduct mortgage interest from your UK tax bill	X Replaced with a basic rate credit	✓
Lower Capital Gains Tax (CGT)	X 18% or 28% CGT tax	✓ 10% or 20% CGT tax for sale of shares
If you sell, Stamp Duty Land Tax (SDLT) for the buyer	X	✓ No SDLT when buying shares
Efficiently take income from your property	X Income Tax as profits arise	✓ Choose between repaying an owner loan or dividends

Tax treatment depends on the individual circumstances of each client and may be subject to change in the future. You should seek professional advice in considering the tax position appropriate to your circumstances.



Illustration outline

This illustration calculates the post-tax profit from an investment in UK residential property under a set of illustrative assumptions.

The investment property can be owned in personal name or through a company. If through a company, when the investor sells the property, they can choose to sell the shares in the company or the property itself. Therefore, we look at the post-tax profit under three scenarios:

- Personal ownership;
- Company ownership using GetGround, and where on a sale the company shares are sold;
- Company ownership using GetGround, and where on a sale the property is sold.

We use the same assumptions for all three scenarios above. The key assumptions are:

- The investor is not resident in the UK and is taxed at Higher Rates
- All tax rates are based on 19/20 tax year
- The property is purchased for £500k and produces gross rent of £20k per annum
- The investor uses an interest only mortgage of £350k (70% LTV) at 3% interest
- The property's value increases 3% per annum and it is sold after 5 years

This illustration has been reviewed by Wilson Partners Limited a member firm of the Institute of Chartered Accountants of Scotland*

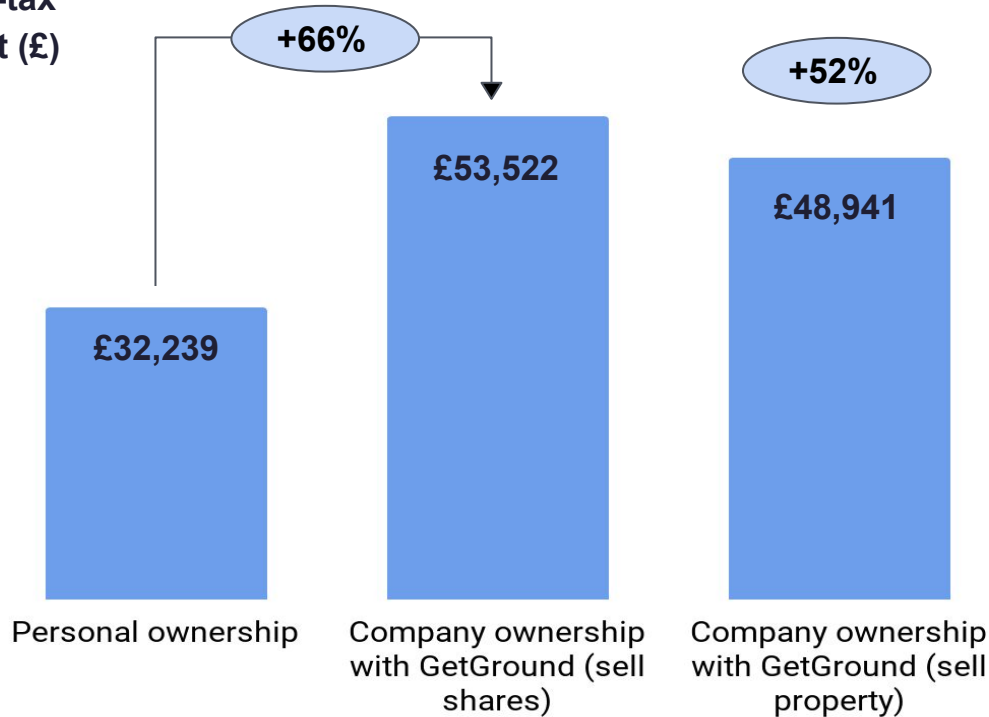
For further assumptions used please see the appendix.

* Wilson Partners Limited is a member firm of the Institute of Chartered Accountants of Scotland. Wilson Partners Limited has reviewed the illustrations provided and confirms that the calculations are consistent with the stated assumptions and that the UK tax rates applied in the calculations are appropriate as of 18 May 2020. As with any illustration, this is a simplified position and does not take into account individual circumstances which could affect the tax outcomes. Tax legislation is complex and legislation is subject to changes in drafting as well as changes in interpretation by courts and tax authorities. The illustrations are not designed to be an exhaustive example of all the tax implications that may affect you and you should seek professional advice in considering the tax position appropriate to your circumstances.



Illustrative investment returns

Post-tax
profit (£)



Commentary

- Post-tax profits increase by 52% to 66% with GetGround
- Profits shown are post GetGround fees



Total investment returns - workings

Total investment return workings

	Personal ownership	Company ownership with GetGround (sell shares)	Company ownership with GetGround (sell property)	Commentary
Property sale price after holding it for 5 years	£579,637	£579,637	£579,637	- £500k purchase price grown 3% p.a. for 5 years
Deferred Tax price adjustment for change in property value	£0	-£6,810	£0	- See Note (a)
Uplift for stamp duty differential	£0	£16,736	£0	- Purchase of shares is subject to only 0.5% stamp duty. Savings vs. Stamp Duty & Land Tax are shared 50:50 between seller and buyer
Gross proceeds	£579,637	£589,563	£579,637	
Estate agent fees to sell	-£8,695	-£8,695	-£8,695	
Lawyer fees to sell	-£1,500	-£1,500	-£1,500	
Net sale proceeds	£569,442	£579,369	£569,442	
Property purchase cost	-£533,000	-£533,600	-£533,600	- £500k property + £3k fees + £30k stamp duty land tax (+ £600 GetGround sign-up fee)
Liquidator fees on company liquidation	£0	£0	-£1,200	
Corporation Tax on property sale	£0	£0	-£6,810	- See Tax calculation (1)
Capital Gains Tax	-£10,204	-£13,355	£0	- See Tax calculation (2); See Note (b)
Post tax rental income during ownership period	£6,000	£21,109	£21,109	- For further details see next page
Total return	£32,239	£53,522	£48,941	



Post tax rental income during ownership period - workings

Post tax rental income during ownership period

	Personal ownership	Company ownership with GetGround (sell shares)	Company ownership with GetGround (sell property)
Rental income	£20,000	£20,000	£20,000
GetGround subscription fee	£0	-£288	-£288
Running costs	-£4,000	-£4,000	-£4,000
Rental profit before mortgage interest	£16,000	£15,712	£15,712
Mortgage interest	-£10,500	-£10,500	-£10,500
Annual profit before tax	£5,500	£5,212	£5,212
Annual Income Tax	-£4,300	£0	£0
Annual Corporation Tax	£0	-£990	-£990
Annual profit / (loss) after tax during period of ownership	£1,200	£4,222	£4,222
Total profit / (loss) after tax during period of ownership	£6,000	£21,109	£21,109

Commentary

- Assumes 4% gross rental yield on purchase price, with no rental growth
- Assumes running costs of 20% of gross rent per annum
- £350k mortgage at 3% interest only
- See Tax calculation (3)
- See Tax calculation (4)
- Yearly post-tax rental income
- 5 years of post-tax rental income; See Note (c)



Tax calculations

Tax calculations

	Personal ownership	Company ownership with GetGround (sell shares)	Company ownership with GetGround (sell property)
Tax calculation 1: Corporation Tax on sale of property			
Sale proceeds net of costs	£0	£0	£569,442
Purchase cost	£0	£0	-£533,600
Chargeable gain	£0	£0	£35,842
Corporation Tax at:	19.0%	£0	£6,810

Tax calculation 2: Capital Gains Tax on sale / liquidation

Net sale proceeds	£569,442	£579,369	£569,442
Less: Corporation Tax on sale of property	£0	£0	-£6,810
Less: liquidator fees on liquidation	£0	£0	-£1,200
Less: Net debt adjustment	£0	-£512,491	-£512,491
Base cost for Capital Gains Tax	-£533,000	-£100	-£100
Chargeable gain	£36,442	£66,777	£48,841
Capital Gains Tax rate / Withholding tax rate on dividend for liquidat	28.0%	20.0%	0.0%
Capital Gains Tax	£10,204	£13,355	£0

Tax calculation 3: Annual Income Tax

Net rental profit before finance costs	£16,000	£0	£0
Income Tax at:	40.0%	£6,400	£0
Income Tax basic rate credit on mortgage interest at:	20.0%	-£2,100	£0
Total annual Income Tax on rent		£4,300	£0

Tax calculation 4: Annual Corporation Tax

Profits chargeable to Corporation Tax	£0	£5,212	£5,212
Corporation Tax at:	19.0%	£0	£990

Commentary

- Sale proceeds post estate agent and lawyers fees

- See Note (d)

- All property purchase costs in personal ownership is applicable; whereas GetGround company use is based on 100 shares each having nominal value of £1

- See Note (b)

- See Note (b)

- Under personal ownership, mortgage interest is not tax deductible and is replaced with a basic rate credit, per the line below

- Rental income post running costs, GetGround subscription fee and mortgage interest costs



Notes (I/II)

(a) Deferred Tax on sale of shares

Property investment companies will incur a Corporation Tax charge in the event that they sell the property in the future for a value in excess of the purchase price. Commercially, it would be normal for the buyer of shares in the company to reduce the purchase price of the shares by the value of this tax charge based on the valuation of the property at the point that the shares are sold. The Deferred Tax amount is the change in value of the property at the point that shares are sold multiplied by the Corporation Tax rate. It only applies in the event of a sale of shares. This is worked out as follows:

	Company ownership with GetGround (sell shares)
Value of property at point of sale	£579,637
Selling costs to realise proceeds	-£10,195
Original cost	-£533,600
Change in value net of costs to realise sale	<u>£35,842</u>
Corporation Tax rate:	19.0%
Deferred Tax provision	<u>£6,810</u>

(b) Capital Gains Tax on liquidation

Illustration assumes investor liquidates the company and seeks a distribution by way of dividend and the investor is not subject to tax on the dividend.



Notes (II/II)

(c) Total profit / (loss) after tax during period of ownership

The net profit arising from the rental activity can be extracted from the company as either an owner loan repayment (tax free for the recipient) or a dividend. For UK residents a dividend would give rise to Income Tax of 32.5% for a higher rate taxpayer (assuming nil rate dividend band already utilised). For non-residents there would be no withholding tax on the payment of the dividend. If the funds are not distributed by way of a dividend then they will result in an increase in the capital value of the company by either increasing the cash or reducing the owner loan. In this illustration we have assumed that funds are retained in the company but it could be more tax efficient, depending on circumstances, to extract by way of a dividend.

(d) Net debt adjustment

This calculation is required to model the impact on the equity value in the company at the point of sale. On a debt free / cash free basis, the price paid for the shares would be adjusted for the value of net debt / cash in the company. Also, when establishing the return on the shares from a liquidation, the proceeds will be after repayment of debt leaving the remaining equity to be distributed to the shareholders. The net debt is calculated as follows:

	Company ownership with GetGround (sell shares)	Company ownership with GetGround (sell property)
Mortgage debt	£350,000	£350,000
Owner loan	£183,500	£183,500
Owner share capital	£100	£100
Accumulated (profits) / losses	-£21,109	-£21,109
Net debt in company at point of sale	£512,491	£512,491



Appendix: Assumptions used in illustration*

Income and capital receipts taxed at Higher Rates applicable to England

Following the sale of the property by the company the liquidation proceeds are distributed as a dividend subject to income treatment and the investor is non-resident in the UK and there is no withholding tax on the dividend distribution

Property purchase price	£500,000
Mortgage amount (interest only mortgage)	£350,000
Mortgage LTV	70.0%
Mortgage interest cost	3.0%
Share capital subscription if buying via a company	£100
Transaction fees on purchase	£3,000
GetGround sign-up fee	£600
Gross rent, % of purchase price	4.0%
Total property running costs exc. mortgage interest p.a. (% of gross rent)	20.0%
GetGround subscription fee	£288
Number of years of assumed ownership	5.00
Annual house price inflation	3.0%
Property value at exit	£579,637
Estate agent fees on sale	1.5%
Liquidator fees on company liquidation	£1,200
Legal fees etc. on sale	£1,500
Income Tax rate - higher rate taxpayer (non dividend income)	40.0%
Income Tax rate - higher rate taxpayer (dividend income)	32.5%
Income Tax basic rate credit on mortgage interest	20.0%
Corporation Tax rate (based on announced rate from 1 April 2020)	19.0%
Capital Gains Tax rate - higher and additional rate taxpayer selling residential property	28.0%
Capital Gains Tax rate - higher and additional rate taxpayer selling shares in a property investment comp	20.0%
Withholding tax rate on dividend distributions	0.0%
Stamp duty rate on share purchase	0.5%

** This is not a comprehensive list of all assumptions used in the illustration but a list of the input assumptions used to model the calculations*



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