valued* accountancy

Property Moose

CROWDFUNDING PROPERTY INVESTMENT

– TAX GUIDE –

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What is indirect property investment?

Indirect property investment is the investment in shares of a company that own, develop and manage property on behalf of their shareholders. Investors will hold legal shares in the company that owns a specific property.

Each property is held for a fixed term which is specified on each investment page. The investor hopes to receive a financial return in the form of dividends on rent received as well an increase in the value of the property subsequently shown as an increase in share price.

The value of investment may go down as well as up and, as with all investments, you may get back less than you have invested.

Indirect property investment allows investors to enter property markets without having to provide the full, up-front capital of buying a house or flat.

What income is taxable?

There are two elements to investing in shares which are liable to tax.

Firstly, any dividend payments are received net of a notional 10% tax credit, meaning that income tax for basic rate payers has already been taken care of (see example 1 on page 3). The tax credit cannot, however, be refunded to you if you pay no tax.

Dividends are taxed at 10% for basic rate payers, 32.5% for higher rate and 37.5% for additional rate payers. They are taxed after all your other income has been taxed.

Secondly, you may be liable to Capital Gains Tax (CGT) when you dispose of an asset that has increased in value.

CGT is charged at 18% for basic rate payers and 28% for higher or additional rate tax payers. There is an annual exemption allowance for each individual per tax year. The annual exempt amount for 2014/15 gives £11,000 of tax-free gains.

Self-Assessment Tax Return

Specifically, you'll need to fill in a tax return if:

- You're self-employed, a business partner, or director of a limited company;
- You're an employee or pensioner with an annual income of £100,000 or more;
- You have a pre-tax investment income of £10,000 or more;
- You're a 'name' at the Lloyd's of London insurance market;
- You're a minister of religion;
- You're a trustee or representative of someone who has died.

"By investing with Property Moose, you will share in any capital growth and rental returns in proportion to your investment."

Esentially, if you are a basic rate tax payer with all tax deducted at source and do not meet the above conditions, you probably won't need to submit a Self-Assessment Tax Return.

However, if you are a higher/additional rate tax payer and receive other income such as dividends or savings income that is taxable at a higher rate than the tax already deducted at source (20%) then you will be required to fill out a Self-Assessment Tax Return.

Any Capital Gains Tax payable is reported on a Self-Assessment Tax Return. If you do not usually submit a yearly Return, you must register for Self Assessment by 5 October following the tax year you disposed of your chargeable assets.

Example 1: Dividend payment for basic rate tax payers

Dividend payment:	*£180*
Notional tax credit:	*£ 20*
Gross dividend liable to tax:	***£200***
Tax due (£200 x 10%)	*£ 20*
Less: notional tax credit	*£(20)*
Basic rate tax due:	***£ 0***

PROPERTY INVESTMENT MADE SIMPLE

Example 2: Dividend payment for additional/higher rate tax payers

Gross dividend payment:	*£200*
Additional rate tax due: *(£200 x 32.5% less £20 tax credit)*	***£ 45***
Higher rate tax due: *(£200 x 37.5% less £20 tax credit)*	***£ 55***

Reducing your Capital Gains

Using your yearly tax-free allowances, such as the CGT annual exempt amount, ensures you keep your gains to a minimum perhaps by spreading disposals across tax years. Furthermore, selling when you pay at a lower tax band will reduce the tax you have to pay. Consider delaying a sale if your taxable income is likely to fall in future tax years.

Reducing your taxable income can also reduce the amount of GCT payable. Consider using your full yearly ISA allowance (currently £15,000). In some cases you may be able to reduce your taxable income for a given year by transferring income bearing assets, such as cash deposits, to your spouse.

You can also use pension contributions to reduce your CGT liability by utilising the tax relief on the contribution. This has the effect of extending your basic rate band by the gross amount of the pension contribution meaning that larger gains are taxable at a lower rate.

You can also make use of tax reliefs such as the Enterprise Investment Scheme (EIS) or the Seed Enterprise Investment Scheme (SEIS) – see page 4.

You may be able to reduce your Capital Gains Tax liability by utilising ISAs and pension contributions.

Example 3: Capital Gains Tax

Share disposal (10,000 @ £3)	£ 30,000
Share purchase (10,000 @ £1)	£(10,000)
	£ 20,000
Less: Annual Exempt Amount	£(11,000)
Gains liable to CGT:	**£ 9,000**
Basic rate payer CGT due: (9,000 x 18%)	**£ 1,620**
Higher/additional rate payer CGT due: (9,000 x 28%)	**£ 2,520**

"Consider transferring income bearing assets to your spouse to reduce your taxable income."

Seed Enterprise Investment Scheme (SEIS)

The Seed Enterprise Investment Scheme (SEIS) is designed to help small, early-stage companies raise equity finance by offering tax reliefs to individual investors who purchase new shares in those companies. It complements the existing Enterprise Investment Scheme (EIS) which offers tax reliefs to investors in higher-risk small companies. You may wish to consider investing proceeds from a share disposal in qualifying shares to take advantage of both Income Tax relief and reinvestment relief for Capital Gains Tax.

Income Tax Relief

Income Tax relief is available to individuals who subscribe for qualifying shares in a company which meets the SEIS requirements, and who have UK tax liability against which to set the relief. Investors don't need to be UK resident. The shares must be held for 3 years for relief to be claimed.

Relief is available at 50% of the cost of the shares, on a maximum annual investment of £100,000. The relief is given by way of a reduction of tax liability, providing there is sufficient tax liability against which to set it. There is carry-back relief available for all or part of the shares to be treated as though purchased in the previous tax year.

> *Example: Steve invests £20,000 in SEIS shares in the tax year 2014/15. Steve owes Income Tax of £18,000 for the same tax period and claims relief of £10,000 (£20,000 x 50%), reducing his Income Tax liability to £8,000 for 2014/15.*

Capital Gains Tax: Reinvestment Relief

Reinvestment of any capital gain into SEIS qualifying shares may be exempted from Capital Gains Tax for that period. The asset does not have to be disposed of first, the investment in SEIS shares can tax place before the disposal chargeable to Capital Gains Tax, provided that both happen in the same tax year.

> *Example: Steve invests £20,000 in SEIS shares in the tax year 2014/15. Steve made a capital gain liable to CGT of £60,000 in the same tax year. Steve can therefore claim relief of £20,000 of his capital gain and is liable to CGT on £40,000 (£60,000 - £20,000) at the relevant tax rate.*

This is a general tax guide on indirect property investment produced by Valued Accountancy and specific tax advice should always be sought on a case by case basis for anyone considering any investment.