

# PROPERTY *INSIGHT*

*August 2010*





Salvador Amico, Partner,  
Head of Property

## IN THIS ISSUE

*So much has happened since the last issue of Property Insight. We have a new government, a new budget and a brand spanking new publication!*

The emergency budget announcement has underscored the importance for businesses and investors to seek appropriate advice to minimise future tax liabilities. In this issue of PI we will be looking at how the announcement will impact the industry and who the winners and losers are.

Turn to page 5 to find out more about how the new government has scrapped HIPS and what the implications are for property owners.

As part of the new PI publication, we have the first in a two-part feature: "30 seconds with..." and "Getting to know you". This month Partner, Ralph Mitchison gives the 30 second lowdown on his experience with architects and we also 'get to know' our new VAT Director, Katie McGavigan on page 7.

I do hope you enjoy reading this new, revitalised publication and as always welcome your thoughts and feedback on what you would like to read in the next issue.

'Til next time...

Salvador  
samico@menzies.co.uk

### Many thanks to:

Sara Davies  
Salvador Amico  
Tom Govan  
Andrew Moorcroft  
Richard Godmon  
Ralph Mitchison  
Katie McGavigan  
Steve Mitchison  
Cara Swindell

# POWER TO THE PEOPLE

*As Shapps scraps spatial planning strategies and home information packs.*

**As some of you may have heard, the new coalition government has decided to do away with Spatial Planning Strategies and HIPS, but what does this mean for you?**

Housing Minister Grant Shapps has decided to scrap spatial planning strategies, which previously set targets for local authorities to provide affordable housing to the market. Shapps initiated a new set of rules, which has left some local authorities in a state of limbo. Local residents are now given the power to approve, which developments can or cannot be built, in their area.

### **Future outlook?**

It is more than likely that local residents will not always be supportive of any additional property development to their area. This could result in a reduction to the number of sites that get planning consent and mean that fewer homes are built, leading to an upsurge in property prices in the following two to three years. However any rises may be exaggerated by the fact that there will be fewer homes.

### **Not so HIP today**

In 2007 Home Information Packs (HIPS) were introduced, which outlined a property's EPC, local authority searches, title documents, guarantees and so on. This had to be provided before a property in England and Wales could be on the open market for sale. Many estate agents felt that this was costly and created a barrier to people who wanted to put their houses on the market.

Recently the coalition government decided to suspend the use of HIPS by homeowners, only requiring an Energy Performance certificate (EPC) if they wish to sell their property. This is good news for potential vendors, as it will free up the market and encourage people to sell their home, without any further cost.

By the same token, it will open the market to more buyers as it becomes easier than ever to sell a property and this will create greater selection for the purchaser.

"This is good news for potential vendors, as it will free up the market and encourage people to sell their home, without any further cost."

"Local residents are now given the power to approve, which developments can or cannot be built, in their area."



Richard Godmon,  
Corporate Tax Partner

“From January 2011, VAT will increase to 20%. Businesses and individuals that are unable to recover VAT will be affected the most.”

# IT'S AN EMERGENCY!

*As most of us know on 22nd June, the new government announced the emergency budget, but how will this impact the property industry and who are the winners and losers?*

### What has changed?

- Capital Gains Tax has gone up from 18% to 28%. This will have a significant impact on the property investment market. For example individuals who buy to let property portfolios will be paying more tax on the gains made on any property that is sold.  
  
In some cases careful planning could help reduce tax liabilities. **We suggest anyone affected by the CGT increase should seek professional advice from one of our experts.**
- From January 2011, VAT will increase to 20%. Businesses and individuals that are unable to recover VAT will be affected the most.
- Corporate tax system: Corporation Tax, currently at 28% will reduce by 1% per year from 1 April 2011 until it reaches 24% in 2014/15. The small companies rate will come down from 21% to 20% from 1 April 2011. This is obviously good news for companies. However, those operating as partnerships or sole traders should consider whether incorporation would benefit them in the longer term. Our advisers can assist with making the choice of an appropriate business vehicle.
- Capital allowances: As from 1 April 2011, the main rate on plant and machinery will be reduced from 20% to 18%. Allowances on integral features will also be reduced from 10% to 8%. The Annual Investment Allowance will be cut from £100,000 to £25,000. **Businesses need to consider the impact of their investment plans and consider how to finance the purchase of plant and equipment.** In some cases leasing may be more attractive.
- ‘Entrepreneurs’ Relief’ has increased from £2 million to £5 million, giving business owners a reduced tax rate of 10% on their first £5 million of lifetime gains. The relief applies to all trading businesses. Entrepreneurs relief can be a useful tax break as long as the businesses are structured correctly. For example the use of Special Purpose Vehicles for property developers will be of vital importance. **Our specialists can explain how Entrepreneurs Relief could be used as part of your long-term business strategy.**

# HOW THE BUDGET AFFECTS THE PROPERTY SECTOR

Who?	Winners	Losers	What you should do
Corporate property investors	Will benefit from the reduction in corporation tax. 100% capital allowances for environmentally beneficial plant and machinery will remain.	Unfortunately they will suffer from the reduction in capital allowances.	Consider environmentally friendly technologies.
Individual property investors		Worse off. When selling properties in the future they will have to pay 28% tax on their gains as opposed to the old rate of 18%. The change was implemented with immediate effect at the time of the budget announcement.	Advice? Make sure you split the gains between spouses and transfer assets in to joint ownership. The 28% CGT only applies if you're a higher rate tax payer, so if your spouse has not got any other income then you would be able to make a considerable saving.  Make sure you speak to your accountant before you decide to sell your property, a bit of forward planning can help save tax.  It is also important to consider disposals. Some losses can crystallise with other investments, if that happens in the same year as selling your property you can set those losses against the property gains.  Consider holding future investments in a corporate vehicle.
Property developers	Definite winners. They will benefit from the reduction in corporation tax; they are not disadvantaged by the falls in capital allowances either.  They will also continue to benefit from Land Remediation Relief, as there has been no change to this policy. It will provide developers with enhanced deduction on expenses incurred when decontaminating land.  Entrepreneurs relief: the increase from £2 million to £5 million will have a particular application to building developers. They are more likely to have the ability to run individual projects, through special purpose vehicles. It is vitally important that developers seek advice on how to best structure a property development scheme, in order to minimise future tax liabilities.		Seek tax advice in respect of any planned property development. The ownership of land or options over land, that is going to be developed, should be reviewed to ensure they are held in the most tax efficient structure.

Questions? Please contact Richard Godmon at [rgodmon@menzies.co.uk](mailto:rgodmon@menzies.co.uk)



Ralph Mitchison, Partner,  
London Office

# 30 SECONDS WITH...

Ralph Mitchison has been at Menzies for 27 years and is a member of the firm's property team with specific responsibility for overseeing the firm's services to its architectural practices.

PI: What type of clients do you act for?

RM: A wide range of property investment and residential development clients, as well as a portfolio of architectural practices including two of the top 25 firms of architects in the UK. As specialists in architects the firm acts for approximately 75 architectural practices.

PI: What is your typical size?

RM: My property investment clients have investment portfolios up to £250 million in value, and my architectural clients range from £1 million to £30 million turnover.

PI: What makes you a specialist?

RM: I have specialised in the property sector for the last 15 years, so have a sound understanding of the industry.

PI: In relation to your architectural clients, what issues should architects be concerned about?

RM: Banking, cash flow and taxation. Architects have certainly had a difficult time through the current recession, with many projects being cancelled or deferred. Cutting costs early in line with reduced revenues has been the key to maintaining both profitability and cash flow. Maintaining revenues is also important and we have recently advised a number of firms about overseas expansion. Increased taxation rates have also meant architects should re-visit their business vehicle and remuneration strategy.

PI: Why would other architects consider using Menzies?

RM: We are specialists and highly experienced in the sector. Our quality of service and understanding of the industry enables us to impart sound, proactive advice and help them with their problems.

Do you have more questions for Ralph? Contact him at [rmitchison@menzies.co.uk](mailto:rmitchison@menzies.co.uk)

"My property investment clients have investment portfolios up to £250 million in value, and my architectural clients range from £1 million to £30 million turnover."

Some examples of Ralph's clients' work



The Park, PRP Architects



Croydon Council Hub, EPR Architects

# GETTING TO KNOW YOU

This month Property Insight decided to put the spotlight on Menzies' new VAT Director Katie McGavigan, who joined the company three months ago. We relished the opportunity to find out more about her specialism and also what value she will be adding to the business.

PI: Congratulations on your new role Katie. Tell me how you came to work for Menzies?

KM: I worked at KPMG for seven years and prior to that I worked in house for a US multinational and also Arthur Andersen.

Having worked in London for all this time, I decided to look for something more local and in the midst of my quest; Menzies approached me and offered this job.

The reason I accepted the offer was because it's very rare for an organisation of this size to have a VAT team. I was impressed by their plans to expand their team and their vision of becoming one of the leading firms in the UK. It's an exciting challenge for me.

PI: Has VAT always been your specialism?

KM: Yes I have worked in VAT for the majority of my career.

PI: What value can you add to Menzies' clients?

KM: Savings and a focus on understanding the implications of the VAT position.

It's important to remember that VAT is a cash tax, its collected on behalf of the government and it's paid over to the government but ultimately it's cash. So cash management is key. I also think its important to help clients manage their property, minimising their cost and their risk. The industry is constantly changing so it's really important to communicate with them and keep them updated.

PI: Can you tell me a bit more about VAT recovery in the property sector and what the implications are for Menzies' clients?

KM: If you really want to understand the cost of VAT in the property sector you really need to do a lot of preparation in advance – forward thinking is key.

If you are making decisions as a business, you need to understand the VAT implications of each of your options. In essence act early to contain a potential crisis.

PI: Would you say that's one of the first things a property business should think about?

KM: Absolutely.

There are also other important factors to consider such as the difference between selling land and selling property – they're not the same thing.

PI: Can you elaborate on the differences?

KM: Sometimes property developers acquire a piece of land on which they will be developing. The VAT rules are completely different to when you are selling a building and your recovery position is much more guaranteed.

Businesses need to be aware that there are so many rules in relation to transactions for the property sector and they're quite difficult to understand.

"It's important to remember that VAT is a cash tax, its collected on behalf of the government and it's paid over to the government but ultimately it's cash."



Katie McGavigan,  
VAT Director



**PI: What would you say are the three key rules Menzies' clients need to be aware of?**

**KM:** 1 – What are you selling? 2 – Who are you selling it to? 3 – What did you do when you bought it?

**PI: Why are those things important?**

**KM:** OK, when it comes to what you're selling you have to determine whether you charge VAT on it, as that will impact the value you recover.

It's important to know **whom** you are selling to, as this determines whether there are any reliefs available, or whether certain purchasers can disapply their options tax. If they do that, they no longer charge tax to supply a piece of land and it will become exempt. This will impact the VAT recovery.

**PI: When VAT is a cost how can you reduce the cost?**

**KM:** Some developers buy land with the intention to build property on it. However later on down the line they may change their mind and decide to sell the land rather than

build on it. This is quite a precarious situation to be in as they run the risk of a VAT clawback, so it's very important to seek the advice of a VAT specialist before contemplating to sell.

**PI: ...and of course clients should seek Menzies' specialist advice?**

**KM:** I think it's worth our clients coming to us and telling us who their potential purchasers are in advance of a sale. We can advise them on the risk factors and be able to determine whether a prospective purchaser is a safe bet or not.

**PI: What are the 3 most important things in your life?**

**KM:** 1 – Family 2 – Friends 3 – Health.

**PI: What are your hobbies?**

**KM:** Spending time with my family and friends. If I have any free time I always spend it with them.

Do you have more questions for Katie?

Contact her at [kmcgavigan@menzies.co.uk](mailto:kmcgavigan@menzies.co.uk)

We value your feedback:  
What do you think of our  
new publication? Email:  
[property@menzies.co.uk](mailto:property@menzies.co.uk)  
with your comments.

### Contact your local Menzies property specialist

If you would like advice on tax matters and any other issues relating to your property business and investments, contact your local Menzies property specialist below:

<i>Blackwater Valley</i>	<i>Heathrow</i>	<i>Kingston</i>	<i>Leatherhead</i>	<i>London</i>	<i>Solent</i>	<i>Woking</i>
John Biffen <a href="mailto:jbiffen@menzies.co.uk">jbiffen@menzies.co.uk</a>	Caroline Bird <a href="mailto:cbird@menzies.co.uk">cbird@menzies.co.uk</a>	Andrew Denley <a href="mailto:adenley@menzies.co.uk">adenley@menzies.co.uk</a>	Steve Mitchison <a href="mailto:smitchison@menzies.co.uk">smitchison@menzies.co.uk</a>	Ralph Mitchison <a href="mailto:rmitchison@menzies.co.uk">rmitchison@menzies.co.uk</a>	Richard Godmon <a href="mailto:rgodmon@menzies.co.uk">rgodmon@menzies.co.uk</a>	Salvador Amico <a href="mailto:samico@menzies.co.uk">samico@menzies.co.uk</a>
Victoria House 50-58 Victoria Road Farnborough Hampshire GU14 7PG	Heathrow Business Centre 65 High Street Egham Surrey TW20 9EY	Kings House 12-42 Wood Street Kingston upon Thames Surrey KT1 1TG	Ashcombe House 5 The Crescent Leatherhead Surrey KT22 8DY	Lynton House 7-12 Tavistock Square London WC1H 9LT	Wentworth House 4400 Parkway Whiteley Hampshire PO15 7FJ	Midas House 62 Goldsworth Road Woking Surrey GU21 6LQ
+44 (0)1252 894905	+44 (0)1784 497106	+44 (0)20 8972 8930	+44 (0)1372 366160	+44 (0)20 7387 5868	+44 (0)1489 566700	+44 (0)1483 758905

[www.menzies.co.uk](http://www.menzies.co.uk)

Any reference in this publication to Menzies means Menzies LLP, a limited liability partnership registered in England and Wales with registered number OC336077. Menzies LLP is registered to carry on audit work with the Institute of Chartered Accountants in England and Wales.

The information contained in this publication has been prepared for general guidance only and is not intended as advice. Whilst every care is taken to ensure the accuracy of information, no responsibility can be accepted by Menzies LLP for any loss resulting from acting or refraining from acting as a result of any material in this publication. The information in this publication is not a substitute for obtaining specific professional advice and no representation or warranty, expressed or implied, is made as to its accuracy or completeness.