

TAXING CONCERN



Current indicators project a 10% year-on-year increase for returns on investment property for 2006 in Ireland.

An interest rate hike of up to 0.5% is expected in June of this year by the European Central Bank, which will have a direct impact on property values. Despite this, property versus a contributory pension scheme presently remains an active debate, with property emerging as a strong leader. **Seamus Kane**, Managing Director, SCK Group advises 'that you possess a diversified portfolio including property and a contributory pension scheme. Due to these changes and potential uncertainty in the market, it is essential that investors seek professional independent advice'.

Individuals who find themselves in an advantageous position of being able to invest in the property market should make themselves fully informed. **Kane** stated 'investing in property is not suitable for everyone. It's fundamentally a long-term investment and I think people should be aware of the pros and cons'. 'Additionally, the investor should utilise any reliefs, exemptions or reductions that are available' **Kane** further added.

Seamus C Kane, Director, SCK Group advises potential investors to seek professional advice before taking the leap and highlights some of the key tax considerations.

Stamp Duty:

Stamp Duty is based on the value of the property and ranges from 0% to 9%. First Time Buyers are generally exempt from Stamp Duty. The application of this tax is pending whether the buyer is an owner-occupier of the property or not. If the individual's first property purchase is Buy-to-Let, then they are not exempt from Stamp Duty. A nominal stamp duty cost also exists if a lease is not in place.

Capital Allowances:

A 12.5% wear and tear allowance for furnished residential property can be

deducted from an investor's rental income. This is provided the goods are bought and used in the Buy-to-Let property.

VAT...Keep the Cash Flowing!

You can reclaim the Value Added Tax on a property purchased for investment purposes. Certain conditions apply;

- It must be a new property
- VAT is to be applied in the normal way
- VAT is to be applied to the tenants rent and the landlord must make a return every two months. Credit can be obtained for VAT that is paid on expenses.
- There is an implied condition in the legislation which requires the date of the registration for VAT purposes to precede the date of purchase of any product or service which you wish to reclaim the tax paid thereon.
- The revenue commissioners will see to recover the VAT refund in the event of an early application to de-register from VAT.

Income tax:

Rental Income is taxable at the individual's marginal rate of income tax. The taxable amount is not the amount of rent that is received by the landlord, but this figure less allowable expenses.

So what expenses are deductible from rents in arriving at taxable rents? The process governing this is relatively straightforward and the following deductions are specifically allowed;

- Interest paid by the landlord in relation to the property
- Rates or levies payable to the local authority
- Goods or Services that the landlord is legally bound to provide under the lease

- Cost of maintenance, repairs insurance and general management of the premises
- Interest on monies borrowed to improve or repair the premises

Pre-letting expenses (expenses prior to the letting of the property) cannot be deducted in arriving at taxable rent. Exceptions to this rule exist. For example: the costs of letting the property initially (Auctioneers Fees, Advertising costs, legal fees etc) as well as expenses incurred between lettings is allowed. Similarly, expenses following the cessation of the letting period are not deductible.

Capital Gains Tax:

A Buy-to-Let property is liable for Capital Gains Tax following the sale of the property.

Capital Gains Tax is calculated by the following method;

- Determine sale proceeds
- Deduct cost of sale
- Deduct cost of acquisition
- Deduct any enhancement expenditure (example: cost garage conversion)
- Deduct the annual exemption of 1,270 if it hasn't been previously used in the year in question.

The 'gain' is taxed at the Capital Gains Tax rate in force at the date of sale.

In conclusion, property as a direct investment or part of your pension fund should not be entered into without expert advice. An independent analysis of the investor's circumstances will determine whether or not property investment is a suitable option for them.

The SCK Group provides expert advice on property investment, wealth management and accountancy. Contact SCK on 01-2910800 or email info@sckgroup.ie