

# PROPERTY OWNERSHIP IN GENERAL PRACTICE

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# Lentells Healthcare Team

- Act for over 160 GP practices
- Throughout West Country & beyond
- Large team based in Chard



# PROPERTY OWNERSHIP

Ideal if all partners are property owners:

- aids decision making
- no lease required
- no SDLT on transfers

Maximum 4 partners on title deeds



# PROPERTY OWNERSHIP OPTIONS

What does the partnership agreement say?

Equal/Fixed

- no changes unless partners join/leave
- issues for p/t partners funding capital and repairs
- prior share for property income



# PROPERTY OWNERSHIP OPTIONS (CONT'D)

## PSR

- Regular changes
- Capital repayments match profit shares
- No prior share of income required

## Other?



# INTEREST RATE OPTIONS - FIXED

- Certainty over payments
- Protection from increases in interest rates
- Potential early redemption penalty
- Initially, more expensive than variable rate
- May be linked to cost rent



# INTEREST RATE OPTIONS - VARIABLE

- Potential for payments to increase
- No early redemption penalty
- Cheaper than fixed



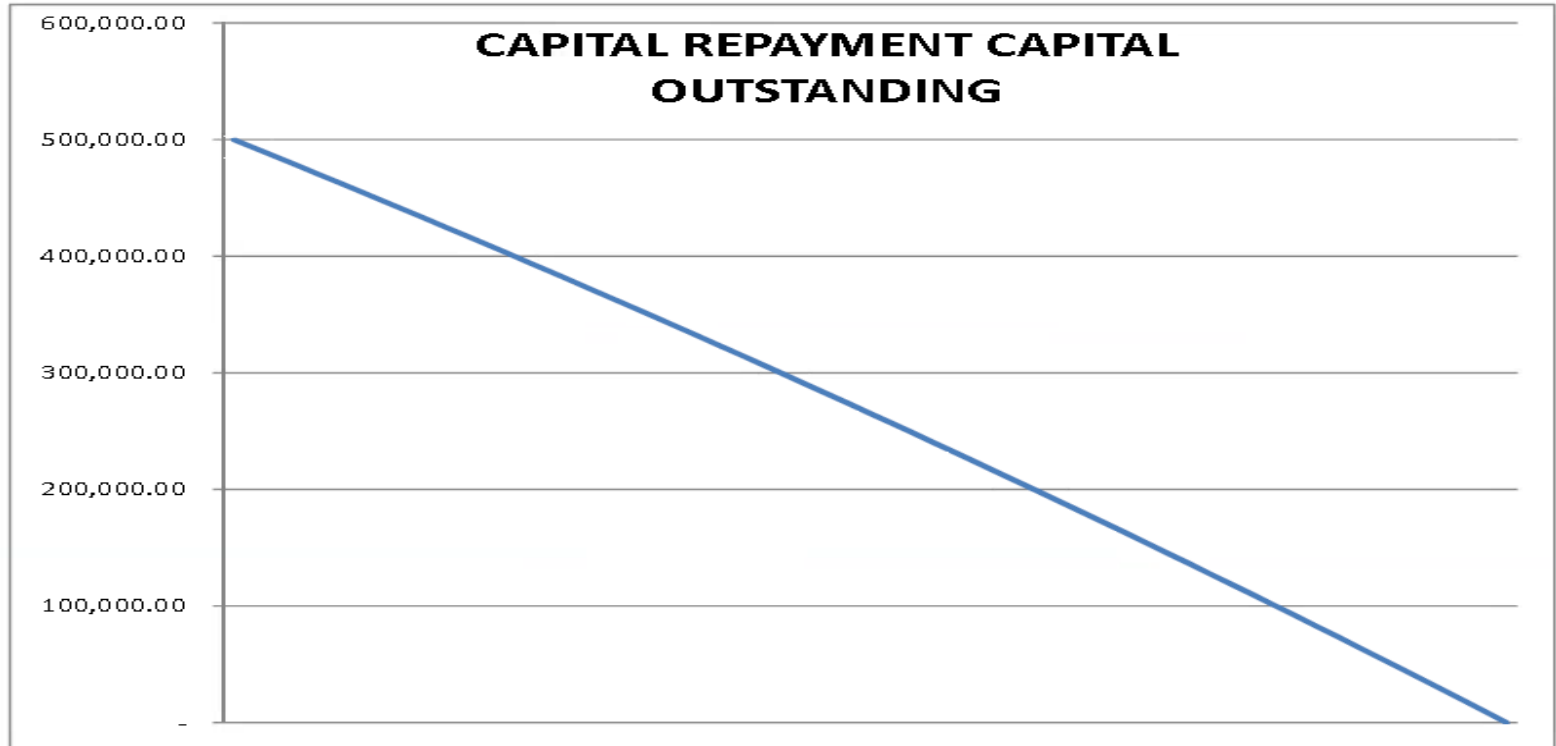


# INTEREST RATE OPTIONS - OTHER

- Fixed for initial period, then variable
- Capped
- Hedging products



# CAPITAL REPAYMENT LOAN



# INTEREST ONLY LOAN



# CAPITAL VS INTEREST ONLY

## CAPITAL

- Equity builds
- Higher monthly repayments
- Tax relief on interest only
- Lower drawings
- Lower risk of negative equity



# CAPITAL VS INTEREST ONLY

## INTEREST

- Equity only increases on revaluation
- Lower monthly repayments
- Full tax relief
- Higher drawings
- Higher risk of negative equity



# EQUITY IN PREMISES EXAMPLE (1)

Year 1	£
Property valuation	500,000
Mortgage	<u>(500,000)</u>
Equity	<u>NIL</u>
Shared in property owning ratios: Say 25% each	<u>NIL</u>



# EQUITY IN PREMISES EXAMPLE (2)

Year 2	£
Property valuation	500,000
Mortgage (£20k repaid)	<u>480,000</u>
Equity	<u>20,000</u>
Equity per partner	<u>5,000</u>



# EQUITY IN PREMISES EXAMPLE (3)

## (PARTNER RETIRES)

Year 5	£
Property valuation	550,000
Mortgage (£100k repaid to date)	<u>400,000</u>
Equity	<u>150,000</u>
Equity per partner	<u>37,500</u>
Payment due to retiring partner	<u>37,500</u>





# EQUITY IN PREMISES

Provides lump sum to exiting partner but:

- at retirement, partners will have tax free pension lump sum
- many partners need more cash earlier in life

When partners leave, need to finance the equity

New partners buy in at higher amount



# PARTNERSHIP/PERSONAL BORROWINGS

Partnership borrowings:

- Feel less risky if borrowings in partnership name
- Easier for new partners to buy in
- Better deal from bank



# PARTNERSHIP/PERSONAL BORROWINGS

Personal borrowings:

- More flexible according to personal circumstances
- Tax relief quicker if a non-March year end



# AVAILABILITY OF FINANCE

Specialist teams in some banks

GP practices seen as low risk

100% interest only loans unlikely to be granted

Can take months to arrange – plan ahead!



# EXIT OF PROPERTY OWNERS

Check partnership agreement for:

Basis of valuation

Settlement date

Allocation of professional fees

Entitled to rent/interest

Arrange and agree valuation – in advance

Discuss borrowing with bank



# EXIT OF PROPERTY OWNERS (CONT'D)

Update title deeds

Liaise with accountant

Options if gap between buy in/pay out:

Ask exiting partner for extension (pay interest/rent in interim)

Existing partners buy/sell on (CGT issues)

Finance by short term loan/overdraft



# CAPITAL GAINS

Arise when sell/reduce property ownership

Sales price – original cost – enhancement costs

Revaluations ignored

Longer serving partners will have higher gains

Mortgage balances ignored



# CAPITAL GAINS TAX (CGT)

Annual tax free amount (£11,100 16/17)

Business gains taxed at 10% (BR) 20% (HR)

ER rate 10% providing:

Leaving practice/significant reduction in profit share

Sell within 3 years of change

Payable by 31 January after tax year





# WAYS TO MITIGATE CGT

Schedule so qualify for ER

Sell in stages

Transfer to lower earning spouse

Defer until BR taxpayer



# CGT EXAMPLE

	£
Sales proceeds 31/3/17	400,000
Original cost	(200,000)
Enhancement expenditure	<u>(100,000)</u>
Capital gain	100,000
Annual exemption	<u>(11,100)</u>
Taxable capital gain	<u>88,900</u>
CGT due for HR taxpayer at 20%	<u>17,780</u>
CGT due for BR taxpayer/ER @ 10%	<u>8,890</u>
Payable 31/1/18	



# REPAIRS PROVISION

Most common in leased premises

Set aside annual amount towards:

- Large repair bills

- Dilapidations at end of lease

Shares out costs annually

No tax relief until expenditure incurred

Utilise separate bank account?



# NEW LEASED PREMISES

Capitalise initial costs, write off over lease term:

Legal fees

Surveyors fees

SDLT

Other costs

No tax relief on new lease set up costs

Tax relief on legal fees for lease renewals



# LEASED PREMISES CONTINUING

Revise lease to include current partners

Check minimum number of partners on lease

Burden of a long lease



# SALE AND LEASEBACK

Transfers risks/rewards to landlord

Long lease can be a burden

Will rent reimbursement cover rent charge?

Any VAT on rent charge?

New partners don't need to buy into premises



# SALE AND LEASEBACK (CONT'D)

Legal fees on transfer (no tax relief)

SDLT on new lease

Any redemption penalties? (tax relief)

Consider CGT – possibly no ER available



# Any Questions?

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