LEARN, INVEST, RETIRE

CAPITAL ALLOWANCES: REDUCE YOUR TAX

What Are Capital Allowances?

Capital allowances are a form of tax relief available to businesses and property investors in the UK, including those investing in Houses in Multiple Occupation (HMOs). These allowances permit the deduction of the cost of certain qualifying capital items from taxable profits, reducing the corporation tax liability.

Capital Allowances in HMOs

In an HMO, capital allowances are typically claimed for items in the common areas only. These can include, but not limited to, items embedded in the building that have specific functionality, such as:

Electrical Plugs: This includes not only the plug itself but also the cables attached to it and the cost of the engineers who installed it.

Door Hinges: A hinge that functionally allows a door to open and close can also qualify as a capital item.

It's not abnormal to find that 25% of a refurbishment cost in an HMO can be classified as capital allowances. This highlights the potential significance of these allowances in property investment.

Importance of Capital Allowances

Capital allowances play a vital role in UK property investment, particularly in HMOs, by: (To Page 3)

THOUGHT OF THE MONTH

WHAT YOU NOT GIVE TIME TO IS AS IMPORTANT AS WHAT YOU SHOULD BE DEDICATING YOUR TIME AS AN INVESTOR.

IN THIS ISSUE

CALENDAR

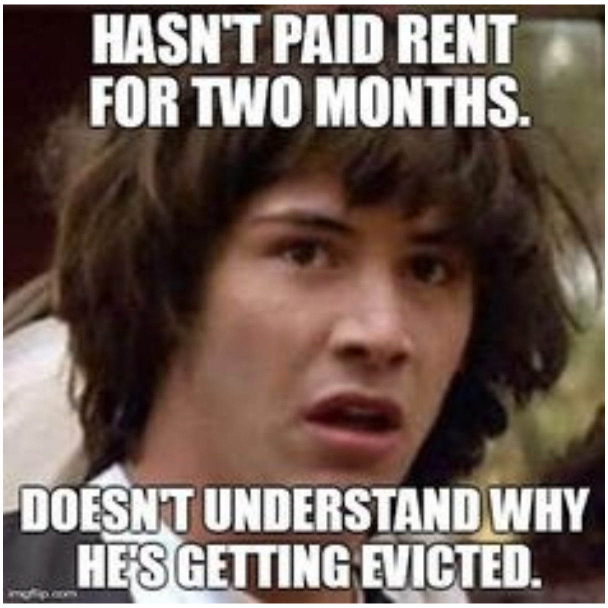
Property Massive Bootcamp, Sept 23

1 day with the investor, Sept 29th

Inner circle Call, CIP, Sept 25th

Property Elite Mastermind, Sept 30

6 week master class, Sept 15



HOW THE WAY YOU BUY PROPERTY AFFECTS YOU?

By Noel Cardona

Investing in the UK property market presents various opportunities, but the structure of your investment can significantly impact your returns. Here, we'll compare two common approaches: individual ownership and limited company ownership, using the example of a property generating £1 in rental income.

Individual Ownership (Affected by Section 24)

Assumptions:

Income Tax Band: Basic rate of 8.75%

Mortgage Interest Costs: 75% of rental income (common assumption for buy-to-let properties)

Given £1 of income:

Rental Income: £1

Mortgage Interest Costs: £0.75

Income After Mortgage Interest: £0.25

Income Tax: £0.09 (8.75% of rental income)

Tax Credit for Mortgage Interest: £0.15 (20% of mortgage interest costs as allowed by Section 24)

Net Income: £0.31

An individual investor keeps £0.31 for every £1 of rental income.

PHRASE OF THE MONTH

Chase Your Fears, Everything You Want is Behind them.

Limited Company Ownership (Affected by Corporation and Dividend Taxes)

Assumptions:

Corporation Tax Rate: 25%

Dividend Tax Rate for Basic Rate Taxpayers: 7.5%

Given £1 of income: **(To Page 3)**

From Noel Cardona's Dictionary

Cash Cycle: The path an investor's money follows from when the search for a property starts until is rented and refinanced. The faster the better.

(From Page 1) **Tax Savings:** Reducing corporation tax, thereby enhancing net profits.

Encouraging Investment: Incentivizing the development and refurbishment of properties.

Cash Flow Management: Improving cash flow through tax savings.

Example: £500,000 Profit Scenario

Consider a UK limited company that owns an HMO and has generated £500,000 in rental income profit for the year. A specialist identifies £250,000 in capital allowances for qualifying items in the common areas was spent during refurbishment:

Here's the corporation tax calculation:

Gross Profit (Rental Income): £500,000

Less Capital Allowances: £250,000

Taxable Profit: £250,000

Corporation Tax (19%): £47,500

The company saves £47,500 in corporation tax by claiming the capital allowances.

Conclusion

Capital allowances are a crucial aspect of property investment in the UK, especially in the context of HMOs. By understanding the specific items that qualify, such as functional elements embedded in the building, investors can maximize their tax savings. It's common for a significant portion of refurbishment costs to be classified as capital allowances, underscoring the importance of working with tax professionals or capital allowances specialists to fully realize these benefits. The strategic use of capital allowances can lead to substantial financial gains.

HOW THE WAY YOU BUY PROPERTY AFFECTS YOU?

(From page 2)

Rental Income: £1

Corporation Tax: £0.25 (25% of rental income)

Income After Corporation Tax: £0.75

Dividend Tax: £0.06 (7.5% of £0.75)

Net Income: £0.69

A limited company keeps £0.69 for every £1 of rental income.

Conclusion

The choice between individual and limited company ownership can have a meaningful impact on your net income from property investments. In this example, limited company ownership results in a higher net income **(£0.69 vs. £0.31 per £1 of rental income),** even with the basic income tax rate set at 8.75%.

These calculations can change if the investor is not a basic rate payer but a higher one squeezing even more the profit kept so individual circumstances and changes in tax laws can affect these numbers. It's vital to consult with a tax professional or financial advisor to determine the best structure for your property investments in the UK.

By understanding the underlying assumptions and tax implications, investors can make more informed decisions that align with their financial goals and investment strategies.

Maybe the best strategy for you would be to have a mix of properties on your name and others on a company where you are the shareholder. **(End)**

BIG SECRET: UNDERSTANDING HMO VALUATIONS

By Noel Cardona

House in Multiple Occupation (HMO) properties are a popular strategy in the UK's real estate market due to their potential for higher rental income compared to traditional single-let properties. The Gross Yield, a crucial factor in assessing HMO property value, plays a central role in this determination. In this article, we'll delve into HMO valuations, the importance of yields, and employ varied yield examples to illustrate the resulting value fluctuations.

HMO Valuations and Gross Yield:

HMO valuations hinge on the Gross Yield, calculated as the annual rental income as a percentage of the property's value:

Gross Yield = (Annual Rental Income / Property Value) * 100

The Gross Yield offers investors and property valuers a vital metric to gauge the appeal of an HMO investment. A rising Gross Yield indicates higher rental income relative to property value, signifying potentially better returns.

Illustration with an 8% Yield: If we had an HMO generating £26,700 annually, at an 8% yield, the property's value equates to:

Property Value = £26,700 / (8 / 100) = £333,750

Example with a 6.5% Yield: Consider the value shift with a 6.5% Gross Yield:

Property Value = £26,700 / (6.5 / 100) = £410,769.23

Example with a 15% Yield: To illustrate the impact of a higher 15% Gross Yield:

Property Value = £26,700 / (15 / 100) = £178,000

The Yield-Valuation Relationship: Understanding the inverse relationship between Gross Yield and property valuation is pivotal.

Risk and Demand: Higher Gross Yields may entice more investors due to potentially superior returns. However, they could also suggest elevated risk or reduced property demand, possibly due to unfavorable location or maintenance issues. Such perceived risk can lower property valuation.

Market Norms: Valuations are moulded by market standards and investor expectations. In markets with lower average Gross Yields, a significantly higher yield might lead to a lower valuation, viewed as an outlier.

Income Growth Potential: Lower yields may indicate room for future income growth, fostering higher valuation based on anticipated increased rental income.

Property Value and Return: The Gross Yield formula illustrates the inverse relationship. As yield rises, the denominator grows, causing property value to decrease.

In Conclusion

HMOs are valued on a commercial basis as opposed to normal brick and mortar. This understanding has tremendous implications for the investor who wants to maximise his/her funds. Gross Yield's role in HMO valuations is profound, reflecting rental income as a portion of property value. As showcased through examples, **elevated yield can paradoxically result in lower property** valuation due to factors like perceived risk, market norms, income growth potential, and the inverse yield-valuation relationship.

Investors and valuers should scrutinize Gross Yield alongside other factors to determine an HMO property's genuine value and potential. This understanding empowers investors to make informed decisions, optimizing returns from HMO investments.(end)

August 2023 Property News

By Noel Cardona

Inflation

You probably already know inflation is one of the main indexes property Investors look at. The latest figures show that inflation is currently at 7.3% in a downward trend which signals in the right direction.

Bank of England (BoE) Base Rate

The BoE has increased its rates by 0.25% and now the base rate is 5.25%. As this is the calculation base mortgage lenders use to set their own rates, this should cause a further increase in rates. If you are on bridge loan, those will be the first ones to go up.

Current Mortgages Rates

As above, the mortgages rates available, if we look at 2 year fixed, interest only ones, are just below 6%. Comparing these numbers with what we had 3 years ago which would have been 1 or 2% is a massive increase. For you as an investor, the really important factor is that your numbers make sense.

Property Prices

Due to the increase in rates by the BoE, increase mortgage rates as above, it is being predicted that in the second half of 2023, there will be a decrease in property prices of

around 5% to 10%. All this driven by a slowdown in sales as less investor can afford to get into expensive mortgages.

Corporate Taxes and Other Rates

From the 1st of April of this year corporation tax went from 19% to 25% for companies with profits over £50K. The Dividend free tax allowance was reduced from £2K to £1K form this April also with tax rates on the dividends of 8.75% tax rates and 33.75% for higher tax rates.

You pay income tax at Basic rate of 20% for the part of your salary between £12,571 to £50,270. You pay a high rate of 40% for the part of your salary that is between £50,271 to £125,140.

Why is this all important? Because if you are not careful and plan how much taxes you need to pay from your property business, you may end up with a financial hole in your pocket.

UK Houses deficit

According to official numbers there is a deficit of around 4.3 million houses in the UK, creating an unbalance between offer and demand. The government has set a target of 300K homes per year but has been consistently missing it.

Why is this important for us as investors? Because your properties are more likely to get rented and faster and prices are more likely to keep increasing.

Net Immigration to UK

Prior to brexit, the average net migration in the UK stood at 285,000 individuals annually—calculated by subtracting emigration from immigration. This number was expected to decrease post-Brexit. Surprisingly, recently released official statistics from May 2022 unveiled an astonishing record: net migration surged to an unprecedented 606,000 individuals in a single calendar year.

Why is this important for you as an investor? Well is very simple: More People + Less Houses = More demand = higher rents, higher prices.

This is what confirms to me that the property market is resilient and even though the UK government continues to get it wrong by not protecting landlords enough, the market will hopefully indicate the need to a win-win relationship where all get equally benefitted: tenants, landlords and government.

Putting it all together

Demand for properties in the UK is higher than the number available to rent. That is an “oversubscribed” business which is great to be in.

Planning For Investors

https://tinyurl.com/PlanningSecrets

Investing in property is particularly difficult because as an investor you need to know about the planning system in the UK.

Not an easy one as is very complex at many different levels.

If you are serious about investing and want to know how the system works I suggest you take my course on Planning For Investors you can see find on the link above. Worth every penny If you ask me.

UNDERSTANDING CAPITAL GAINS IN UK PROPERTY FLIPPING

By Noel Cardona

When it comes to property flipping (buy, refurb and sell) in the UK, understanding how capital gains are treated is crucial for making informed decisions about your investment strategy. Let's delve into the details with an illustrative example and explore the differences between capital gains taxation for individuals and limited companies.

Example Scenario: Imagine you purchased a property for £75,000, invested £30,000 in refurbishments, and eventually sold it for £115,000.

Individual Ownership: If you're a sole proprietor or in a partnership, any gains made over the annual tax-free allowance of £12,300 will attract Capital Gains Tax (CGT). The tax rate for CGT depends on your income tax rate band and the type of asset being sold. For a residential property, the rate is 18% or 28%, determined by your income level. In our example, assuming the higher rate of 28%, your CGT liability would be:

Gains: £115,000 (Selling Price) - £75,000 (Purchase Price) - £30,000 (Refurbishment) = £10,000 CGT Liability: £10,000 * 28% = £2,800

Limited Company Ownership: For properties owned by a limited company, the gains would be subject to Corporation Tax. Unlike Capital Gains Tax, companies do not benefit from tax-free allowances and instead pay corporation tax on profits. As of the tax year 2022/2023, the rate is 19%. However, from 2023, it's set to increase to 25%. In this scenario, the calculation would be:

Profit: £115,000 (Selling Price) - £75,000 (Purchase Price) - £30,000 (Refurbishment) = £10,000 Corporation Tax Liability: £10,000 * 19% = **£1,900 (2022/2023 rate)**

Comparing Individual vs. Limited Company: In this example, the individual owner would pay **£2,800 in CGT, while the limited company would pay £1,900** in Corporation Tax. However, it's important to note that the decision between individual and limited company ownership involves more than just the tax implications. Factors like financing, liability, and long-term goals should also be considered.

Complexities and Changes: Recent updates mention that companies no longer pay Capital Gains Tax; instead, they pay Corporation Tax on their gains. Corporation Tax offers certain benefits, but it's essential to consider the impact of the upcoming rate increase from 19% to 25% in 2023.

In conclusion, comprehending how capital gains are treated when flipping properties in the UK is essential for savvy investors. The decision between individual and limited company ownership involves nuanced financial and strategic factors that require careful consideration. Consulting with financial professionals is recommended to make the best choice for your property investment endeavours'.(end)

COULD THIS SAVE YOU 1000'S IN ELECTRICITY?

By Noel Cardona

For property investors seeking to maximize savings on energy costs, understanding the differences between standard electricity meters and Economy 7 meters can be crucial. Standard meters charge a uniform rate throughout the day and night, while Economy 7 meters offer a dual-rate tariff with lower costs during off-peak hours, making them ideal for those who can shift energy usage to nighttime.

If you're considering switching to an Economy 7 meter, here are three key steps to take:

Assess Suitability: Evaluate your property's energy consumption patterns. If you can leverage cheaper nighttime rates for appliances like storage heaters, **(To Page 8)**

Ladder OF Success

Property Investment Mastermind & Inner Circle: These are not for the faint of heart. Are you ready to accelerate your results while working and discussing your strategies with me and other investors like yourself? Are you willing to be on the hot seat and put your ideas to the test? If so, **send a message to info@propertycashflow.co.uk enquiring about the Property Investment Elite Mastermind or Inner Circle (CIP).**

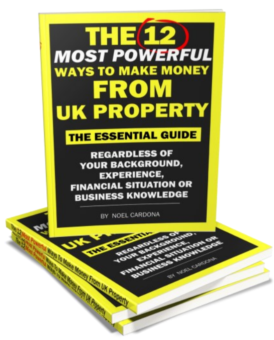
Let me Invest in Property For you: if you have neither the time or the experience but you do have the funds to invest in property (from £50K) at extraordinary returns and capital gains, then I can help you using my several years of experience building portfolios for me and other investors. I do everything for you, from the beginning to the end and you get the value increase and the monthly income. All from the comfort of your home. **Request a 30 mins Free consultation With me on info@propertycasflow.co.uk.**

Hunt Properties with me: Do you want to discover how it is to be in the trenches with an investor looking for properties which have the kind of hidden value that will yield extra-ordinary value for you? Are you ready for a full on day talking to real estate agents and investors, sifting the good from the bad and looking over my shoulder as I uncover the hidden value that the average invertor will never see? **Enquire about the next days available at info@propertycashflow.co.uk**

Attend my 6 week Masterclass: Want to uncover my most important secrets to start from zero and get to freedom in less than four years? Do you want me to break down my strategies, contacts, software, legal packs, everything you need to become a master in property? If you do, then you need to attend my 6 Week Masterclass. Learn about R2R, HMOs, deal packaging, raising finance, buy to let, investing mindset, service accommodation and more. All the tools you need to succeed in property. **Enquire about dates available at info@propertycashflow.co.uk**

Ultimate Property Boot Camp: For those members of my circle who want to start from scratch and get sound bases for their future property investing this is the second step of your journey (The first is to read my books). What is a good deal? Where to start in property? This outrageous boot camp will give you the big picture required to make the right decisions and get where you need to get to. I am aware there is so much information out there that it causes the opposite of what it should do: show you the clear path to move fast and create money speed.

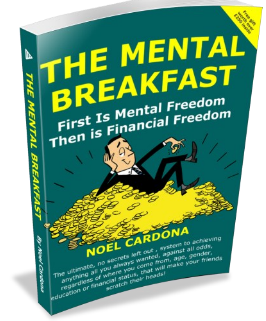
Other Resources from Noel Cardona



The 12 Most Powerful Ways to Make Money From UK Property. Get to know how investing in UK property is a unique ladder where you can start with no money and get to create a tremendous amount of value. My Story is all layout here for you to get inspired. **Buy the book in amazon:** tinyurl.com/Noelbook

The 10 Golden Rules of UK Property Investment will give you access to the 10 most important high leverage actions you must use to achieve money speed. Being busy is not the same as being productive and this book is the key to answer that puzzle. **Available to members of my CIP.**

The 5 Pillar of Successful UK Property Investing is about mindset, about the 80% that will make you successful: You. I've seen many investors fail because they retreat on the first sign of difficulty instead of pushing and winning the war. They give up too early. **Free here:** tinyurl.com/5pillarsbookNoel



The Mental Breakfast? This book challenges your beliefs about what you can achieve. This book works with the most valuable assets you have, that is, your mind and your time. If you don't know how to manage those two, you will just give up when problems come. **Free Download here: https://tinyurl.com/MentalBreakfast**

PROPERTY RENEGADE

THE BIG 4: A BRUTALLY HONEST GUIDE FOR THE PROPERTY RENEGADE

Listen up, would-be property investors. If you want to graduate from the mediocre leagues and join the Property Renegades (PR), you need to pay attention to the Big 4. These are the building blocks that separate the dabblers from the pros. Get these wrong, and you'll be stuck in the slow lane with the average Joes. *Get them right, and you'll be on the fast track to success.* Here's what the PR focuses on:

1. **Finding the Money**

A pro doesn't whine about not having enough capital. That's for amateurs. In the world of property investment, money talks, but it's not the only language. The PR understands leverage, loans, and strategic alliances. They use other people's money to make their money. Can't find the funds? Stop making excuses and start making connections. Money is out there; the question is, do you have the guts to go get it?

2. **Finding the Best Properties**

Average investors take what they can get. They settle for properties that are merely 'okay.' ***The PR doesn't settle; they hunt.*** They research, analyze, and scrutinize every deal until they find the gems that will skyrocket their portfolio. They know the markets inside out and don't rely on luck or intuition. If you're stuck picking up the crumbs, maybe it's time to sharpen your property-hunting skills.

3. **The Cash Cycle**

The Cash Cycle is the time it takes you from when you start looking for a property, to the time you have it rented and refinanced. Time is money, and the PR knows it. What is the Cash Cycle For a Property Renegade?, it can be as fast as 2 months. For the average investor? Up to 8 excruciating months. Why the difference? Because the PR doesn't waste time over-analyzing or fearing failure. They move swiftly from finding a property to renting and refinancing it. The PR knows what he is doing. If your Cash Cycle is dragging, stop procrastinating, and start executing. Time waits for no one, and neither should you.

4. **Refurbishing Costs**

Here's where the average investor bleeds money like a sieve. They either overspend on unnecessary renovations or underspend and end up with a subpar property. The PR strikes the perfect balance. They know exactly what needs to be done, and they do it efficiently and effectively. If you're wasting money on refurbishing, it's because you haven't done your homework. Stop guessing and start planning.

Conclusion

Success in property investment isn't about luck, and it's not about accepting mediocrity. It's about understanding the Big 4 and executing them flawlessly. If you find yourself stuck in the average investor's rut, maybe it's time to take a long, hard look at your approach. Are you a Property Renegade, or are you content to remain in the shadows of those who don't accept excuses and make their projects work regardless?

The choice is yours. Either step up your game and join the ranks of the pros or stay comfortable in your mediocrity and let your dreams die away. **Join my Circle of Private Circle of Renegade Investors here: https://tinyurl.com/investorsCIP**

Property Renegade Principle

Use Creative Thinking and Market Knowledge to Develop Powerful Investments Opportunities

COULD THIS SAVE YOU 1000s in ELECTRICITY

By Noel Cardona

(From page 6) Economy 7 might be beneficial.

Research Tariffs: Investigate energy suppliers' tariffs that align with Economy 7 meters. Compare rates and terms to find the most cost-effective option.

Contact Your Supplier: Reach out to your energy provider to discuss switching. They can provide insights into costs, installation, and the potential impact on your property.

By grasping the meter differences and following these steps, property investors can make informed decisions to reduce energy expenses and enhance their investment's financial efficiency. This is even more important if your main strategy is HMOs or Service Accommodation where you pay the bills!