

## TAXATION SUMMARY

### INVESTMENT PROPOSAL

Waterville Holiday Home Scheme gives one final opportunity to investors to acquire holiday home(s) with substantial tax breaks in a much sought after location. The principal features of the investment include:

- Exclusive development of 11 holiday homes – 4 Bed detached houses circa 1,550 Sq Ft
- Superb Location
- Prime tourist destination
- Each holiday home will be fully furnished and decorated to a 4 Star Failte Ireland standard
- Qualifies for Section 23 tax type allowances against all Irish rental income (Commercial and Residential)
- Potential for capital appreciation
- On-site parking

Each investor who agrees to purchase a cottage will contract to purchase a site, a building agreement and fixtures. The illustrative prices for a house costing €400,000 and €395,000 (excl. VAT) are as follows:

	<b>€400,000</b>	<b>€395,000</b>
	<b><u>House</u></b>	<b><u>House</u></b>
Site and building agreement (incl. VAT)	€419,950	€414,275
Fixtures & Fitting (incl. VAT)	<u>€6,300</u>	<u>€6,300</u>
Total Cost (incl. VAT)	€456,250	€450,575
Recoverable VAT	<u>(€6,250)</u>	<u>(€5,575)</u>
Total Cost (excl. VAT)	€400,000	€395,000
Tax saving on capital allowances	<u>(€153,220)</u>	<u>(€151,340)</u>
Overall net cost of holiday cottage over 10 years (excl. Stamp Duty)	<u>€246,780</u>	<u>€243,660</u>

The above figures may be subject to change and are dependent upon the final cost of the build project.

## **CAPITAL ALLOWANCES**

Capital allowances are available in respect of the qualifying construction cost to both individuals and companies provided that certain conditions are met. These conditions are summarised below. It is anticipated that the qualifying cost of the holiday cottages will be approx. 80% of the VAT exclusive cost of each holiday cottage (comprising site and building agreement) excluding fit-out. The rate of industrial building allowances available is 10% per annum over a 10 year period. The industrial building allowances are available for offset against Irish source rental income. Any unused capital allowances may be carried forward to subsequent years.

Capital allowances are also available in respect of expenditure incurred on furnishing the holiday cottages at a rate of 12.5% per annum for 8 years. These allowances are available for offset against Irish rental income. Any unused allowances may be carried forward.

The following table illustrates the capital allowances that can be claimed by a purchaser who is an individual over the 10 year period. This is based on the assumption that the investor has sufficient Irish rental income at the marginal rate to absorb the capital allowances each year. The tax savings are calculated based on the prevailing rates at the time of writing.

	<b>€400,000 House</b>			<b>€95,000 House</b>		
Capital Allowances	Industrial Building Allowance 10% p.a	Fit-Out Allowance 12.5% p.a	Total	Industrial Building Allowance 10% p.a	Fit-Out Allowance 12.5% p.a	Total
Year1	€9,600	€3,750	€3,350	€9,200	€3,750	€2,950
Year 2	€9,600	€3,750	€3,350	€9,200	€3,750	€2,950
Year3	€9,600	€3,750	€3,350	€9,200	€3,750	€2,950
Year 4	€9,600	€3,750	€3,350	€9,200	€3,750	€2,950
Year 5	€9,600	€3,750	€3,350	€9,200	€3,750	€2,950
Year 6	€9,600	€3,750	€3,350	€9,200	€3,750	€2,950
Year 7	€9,600	€3,750	€3,350	€9,200	€3,750	€2,950
Year 8	€9,600	€3,750	€3,350	€9,200	€3,750	€2,950
Year 9	€9,600	-	€9,600	€9,200	-	€9,200
Year 10	€9,600	-	€9,600	€9,200	-	€9,200
Total	€96,000	€30,000	€26,000	€92,000	€30,000	€22,000
Self-employed tax saving at 47%	€39,120	€14,100	€53,220	€37,240	€14,100	€51,340
Non self-employed tax saving at 44%	€30,240	€13,200	€43,440	€28,480	€13,200	€41,680

## **QUALIFYING CONDITIONS**

The holiday cottages will qualify for capital allowances provided certain conditions are satisfied and they are registered in a register of holiday cottages established by Failte Ireland.

The houses must be let solely to tourists and must be used and occupied for no other purposes during the months of April to October in each year. Furthermore, no person may occupy the houses for more than two consecutive calendar months at any one time or for more than six months in any calendar year without the prior consent of Failte Ireland.

TAMS (Tourist Accommodation Management Services), which is responsible for the registration of holiday cottages, confirmed in writing that the proposed development fulfils the requirements for holiday cottage registration.

## **INVESTMENT STRUCTURE**

Individual investors will purchase the holiday homes. A management company will be established for the purpose of the day-to-day management of the scheme. This company is required for the tax relief and will be owned by the investors.

Each purchaser will grant a 21 year lease to the management company. The lease will contain a break clause where the property reverts to the investor once the tax life of the holiday home is terminated i.e. after 10 years.

A lease of at least 10 years is required to satisfy the requirements for holiday cottage registration and the house must be utilised as a holiday home during this period in order for each investor to qualify for the tax breaks.

The management company will in turn engage a professional holiday home operator, with a proven track record, to manage and market the development.

## **VAT**

VAT will be charged on the sale of each site and building agreement at 13.5%. The sale of fixtures will be subject to VAT at 21%. Separate VAT invoices will issue for site, building costs and fittings.

Because the granting of a 21 year lease to a management company will be chargeable to VAT it is suggested that each investor should register for VAT. This will enable the purchaser to recover the VAT incurred on the purchase of the holiday home.

VAT would normally be chargeable on the creation of a lease of 21 years. However, where both the investor and lessee are VAT-registered they can avail of the s4A

procedure, which provides that the lessee (in this case the management company) accounts for the VAT on the transaction.

It should be noted that other short-term rental properties held by an investor will not come within the VAT net as a result of VAT registration as an investor's VAT registration is specifically for a long term lease.

Details of each investor's VAT registration will have to be provided to the vendor's solicitor before closing.

Investors are strongly advised to seek independent professional advice in relation to the VAT implications of registering for VAT.

### **INTEREST**

Tax relief for interest incurred on borrowings used in the acquisition of holiday homes will be allowed as a deduction against rental income.

### **GUARANTEED RENT**

A guaranteed net rental income of €7,000 will be offered to owners of the holiday homes for the first two years.

### **DISPOSAL**

Capital Gains Tax may be payable on any gain arising on the disposal of the holiday cottage.

### **CLAWBACK OF ALLOWANCES**

A clawback of industrial building allowances will occur if the building is sold within a period of 10 years from the date of first letting. De-registration of the holiday cottage from the Failte Ireland Register within the 10 year period will also result in a clawback of all allowances claimed.

### **STAMP DUTY**

Stamp duty is payable on the purchase of the completed holiday home on the VAT exclusive cost of the site and construction cost. Stamp duty is estimated at €2,200 and €1,900 for the €400,000 and €395,000 holiday homes respectively.

## **DISCLAIMER**

The information contained in this document is based on our understanding of the tax legislation and the current interpretation thereof. Investors should be aware that legislation and practice are subject to change without notice. The calculations are prepared using the tax rates prevailing at the time of writing. As with any property transaction each investor should seek independent legal and tax advice. The developer and its advisors cannot accept any responsibility for any loss or damage however arising including failure to obtain capital allowances occasioned by any person acting or refraining from acting as a result of the information contained therein. The particulars are issued on the understanding that they will not form part of any contract. The document is confidential and is for use only by the person to whom it is addressed.