

RIVERMEAD COURT



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Extending our Leases

The pros and cons

4/6/2018

Time to extend your lease

- *Our leases have 87 years to expiry;*
- *Extending it now will cost money*
- *But waiting will make it still more expensive.*
- *We all “own a share of the freehold” so why should we pay...?*

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When a lease is extended

- When a company extends a lease it is giving up value.
- The value of the freehold interest is reduced
- The value of the leasehold interest is increased
- The drop in the value of the freehold is the premium – normally charged to the flat owner

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Tax Law

- When a lease is extended, this is a taxable event.
- How it is taxed depends on the circumstances
- In the case of Rivermead Court there are two possible scenarios

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Two different approaches

- **Scenario 1** – Rivermead Court charges a premium
- **Scenario 2** – Rivermead Court does not charge a premium
- Each of these scenarios has different tax consequences.

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Some Assumptions

- The premium for each flat will be directly calculated on the value of the property.
- Premiums will range from about £15,000 to £29,000
- The average premium will be approximately £19,000 - £20,000
- Ground rent is abolished
- 207 flats – Total raised - some £4 million
- Corporation tax rate 19% (17% from April 2020)
- Available tax losses currently total £500,000
- Major works expenditure planned for 2018 £500,000

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Scenario 1 – normal premium charged

- Premiums received by Rivermead Court will total about £4 million if every leaseholder extends on this offer
- The company's Tax losses and qualifying expenditure can be set against income
- Any unrelieved balance is taxed at 19%
- Receipts can potentially be timed to minimise the tax payable

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Highly Provisional estimated pipework costs

- 2018 £0.25 million
- 2019 £1.25 million
- 2020 £1.50 million
- **Total cost £3 million**

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Illustrative Receipts and Expenditure

	2018	2019	2020
	£ Millions	£ Millions	£ Millions
Available tax losses			
Brought forward	0.50	1.25	0.50
Forecast major works	0.50		
Forecast pipework costs	0.25	1.25	1.50
Sub-total - tax losses	1.25	2.50	2.00
(Lease premium income)		(2.00)	(1.50)
carry forward tax losses	1.25	0.50	0.50

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Scenario 2 – No premium is charged

- Leaseholders receive a “free” lease extension
- This is taxed as a deemed dividend receipt in the hands of the leaseholders
- There is a further risk that Rivermead Court will pay tax on the deemed premium income, regardless of the fact that no money has changed hands.
- Money still has to be found to pay for the pipework, cost of valuation and legal costs.

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Board Recommendation

- Apart from our advisers, all of us here, including the members of the Board, are leaseholders and shareholders in Rivermead Court Limited.
- We are all, therefore, in the same position.
- After a period of consultation, the board will propose eliminating the ground rent and plans to make an offer to all leaseholders to extend our leases for 878 years or thereabouts.
- This is a voluntary offer – it is entirely up to each leaseholder as to whether they wish to accept and extend their lease at this time.

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