Investment Properties – disclosure and deferred tax

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Posted [February 20, 2020]
In [Tax]

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FRS 102 is the Financial Reporting Standard that applies to the UK and the Republic of Ireland. It has been a major overhaul of accounts disclosures replacing UK GAAP (General Accepted Accounting Practice). One of the big areas of change has been the move from the old "historic cost" way of disclosing some assets to "fair value". Of particular note is the need to disclose / measure investment properties at fair value as opposed to historic cost. The difference in value must flow through the profit and loss. The tax position in the round needs to be considered. With the July 2019 report on IHT by the OTS suggesting that the trading percentage is increased in line with CGT, ie from 50% to 80%, even more care must be taken when deciding exactly what is an investment property for tax. There should be no rushing into an accounts disclosure without thinking through the capital taxes position.

Before the triennial review, there was an "undue cost or effort" exemption which is no longer available and the disclosure has to be applied, irrespective of the cost of doing so.

Exact investment definition

An accountant must consider the full tax implications before making decisions on marginal property which could have an impact on the future capital tax position of the business. As "fair value" movements for investment property are not taxable, ie not within the scope of tax, any changes made will also require adjustments to deferred tax.

If your firm of accountants makes a distinction between their accounts team and their tax team the accounts team should be linking with the tax team to see how they view the position.

With farms there are often residential properties let out that might be brought back into the trading operation. Recent inheritance tax tribunals have shown that there is a spectrum, eg. *Gill (Charnley & Anor (Estate of Gill)* [2019] TC 07425), *Vigne* (*HMRC v The Personal Representative of Maureen Vigne (Deceased)* [2018] UKUT 0357) and *Graham (The Personal Representatives of Grace Joyce Graham (deceased) v HMRC* [2018] TC06536), before any property can be decided to be an "investment property". The rate of CGT will be different between a residential property at 28% and other non-residential property at 20%. The base cost of the property will have to be ascertained in order to calculate the CGT. Thought must also be given to the new residential CGT returns from 6 April 2020.

Deferred tax

The deferred tax on the increase in value from historic cost to “fair value” will have to be provided or otherwise the balance sheet would be overstated. On the subject of deferred tax, new buildings are entitled to Structures & Buildings Allowance and that should also be considered with all properties used in the business.

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