

## Investment Proposal

This development consists of 10 holiday cottages at Glanerought, Kenmare, Co. Kerry. As a result of having negotiated a deal for all 10 cottages Grattan Asset Management is able to offer each cottage at a very attractive price.

	€
Price (excl VAT)	238,700
Fixtures & Fitting	25,000
Irrecoverable VAT (estimated)	<u>6,300</u>
Total Cost	<u>270,000</u>

## Tax Incentives

Sample annual tax relief against Irish rental income

	€	Allowances granted for each of:
In respect of the cottage	17,902	10 Years
In respect of the fittings	3,125	8 Years
	<hr/>	
	21,027	
Total Relief Available	204,020	
Tax Savings when calculated at 46.5%	94,870	

## Tax Summary

### 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 Bord Fáilte under any Act of the Oireachtas on or after 29 July 1969. Excellence In Tourism, which is responsible for the registration of holiday cottages, has confirmed in writing that the proposed development fulfils the requirements for holiday cottage registration.

### Transitional Arrangements

Except in cases that fall within the transitional arrangements capital allowances are no longer available for holiday cottages where the expenditure is incurred after 4 December 2002. The transitional arrangements apply if the appropriate planning authority acknowledges that a planning application, not being an application for outline planning, is made in accordance with the Planning and Development Regulations 2001 to 2002 by 31 December 2004. In these circumstances the qualifying period in which expenditure may be incurred is extended to 31 December 2006. The developer has confirmed that the cottages meet the transitional arrangements.

### Capital Allowances

Capital allowances are available in respect of the qualifying construction cost to both individuals and companies provided that certain conditions are met. It is anticipated that the qualifying cost of the holiday cottages will be in excess of 75% of the VAT-exclusive cost of each holiday cottage excluding fit-out. The rate of industrial building allowances available is 10% per annum (€17,902 p.a.) for a period of up to 10 years. 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 the rental income from the holiday cottage.

## Investment Structure

It is intended that the investors will lease their holiday cottages to a management company engaged in the holiday cottage business. The lease will be for a term of 10 years and one month. The holiday cottage must remain registered with Bord Failte for 10 years to avoid a claw back of the industrial building allowances.

The annual rent under the lease for each of the first three years is €10,500 p.a. A management charge of €4,500 p.a. will be charged to the investor for the first three years of the lease term.

## VAT (up until 30.06.08)

VAT will be charged on the sale of the cottages by the developer at rates of 13.5% for the buildings and 21% for the fittings. On acquisition of the holiday cottage and fittings the investor will be entitled to recover the VAT charged to him as he will use the property and the fittings for the purpose of making VATable supplies.

On the creation of the 10 year 1 month lease of the building in favour of Glanerought Holiday Homes Ltd. the investor will make two supplies for VAT purposes. The first supply is the supply of the leasehold interest to Glanerought Holiday Homes Ltd. VAT will be charged on the capitalised value of the lease (€198,335). Provided the s.4A procedure is availed of the lessee (Glanerought Holiday Homes Ltd.) can account for the VAT on the creation of the lease. This avoids cash flow consequences on the creation of the lease. The second supply is the supply of the reversionary interest to the investor. This supply will give rise to an irrecoverable VAT cost of €6,300 to the investor.

In addition to the supply of the leasehold interest in the property the investor will also supply the fit-out to Glanerought Holiday Homes. The VAT on the letting of the fit-out will be accounted for by invoicing Glanerought Holiday Homes for an amount equal to the cost of the fittings plus VAT at the commencement of the lease. Glanerought Holiday Homes will pay the VAT on this invoice to the investor.

Overall the irrecoverable VAT on the acquisition of the holiday cottage should be €6,300.

## Stamp Duty

Stamp duty will be payable on the purchase price of the cottage in excess of €125k at a rate of 7% i.e.

Overall price	€270,000
<b>Deduct</b>	
Price referable to fittings	€ 25,000
Threshold	<u>€125,000</u>
	€120,000
Stamp duty @ 7%	€8,400

## **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 herein. 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.