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Hollyhurst
Mill Lane
Chiddingfold
SURREY
GU8 4SJ

25 October 2011

Ms Nikki Spoor
Partner
White Hart Associates LLP
East House
109 South Worple Way
LONDON
SW14 8TN

Dear Nikki

PENSION SCHEME RETURNS AND TAX PLANNING

Please find attached a letter dated 25 October to Gavin with respect to the Pension Scheme Returns and Takeover. Most of it is for Gavin but there are a couple of matters which I would appreciate your view on. These are:

Office Rental: I note from the lease that the rent was due to increase to £17,500 from the start of the new lease on 30th April 2009. This wasn't picked up at the time so we have continued to pay £15,000 p.a. rent. Could you and Gavin please liaise to advise how we should address this matter? The next half-yearly rent is due to be paid in November so I will inform Elaine that there is an outstanding issue. For your records I enclose a copy of the title and lease.

Office Valuation: I also enclose the valuation as at 3rd August 2009, which values the property at £260,000. The report and accounts to 05 April 2011 has the market value at £190,000. Both valuations assume the property has B1 use, which is not the case at present although we will be seeking retrospective planning consent now that it has been in use as such for 10 years. Again, can you and Gavin consider what we should do concerning the market valuation anomaly with respect to our reports and returns?

In addition, as part of our tax planning, we are keen to establish a strategy for the property currently used as an office. In the past our previous pension advisor suggested transferring Hollyhurst House (the office) to John and me so that when we eventually come to sell up we don't have to include VAT on the sale. In March 2010 we received contrary advice to leave it where it is for the following reasons:

- **If we transfer it now, John and I will have to pay Vat on the transfer, which we will not be able to recover**
- **Once the property is in our name, all future rental income will be taxable in our hands and probably at the higher rate of 50%, given our other income. Over the next 3 years to a projected retirement and sale, at the historical rent of £15,000, this would cost us £22,500 in tax, ie. £15,000 x 3 years @ 50% tax rate. Obviously more if the rent is reviewed upwards per point 1 above**

- **Lastly, if Hollyhurst House (the office) then increases in value over the next 3 years, we would be subject to capital gains tax on any increases in value at the point of sale at whatever the then prevailing rate is. While we would probably qualify for entrepreneur's relief if sold at the same time as the business, which would mean a capital gains tax rate of only 10%, we could not guarantee that this will still be available in 3 years time.**

Contrast the above with retaining the property in the pension scheme – no tax on the rental income and no capital gain on the sale! Yes, we will have to account for VAT but this will be just included in the asking price and will be no different than if we transfer it today, assuming of course there are not any increases in Vat rates.

Could you please review this advice and confirm whether you agree, or otherwise, with it and therefore whether we need to do anything at this time. I look forward to hearing from you with respect to this and the office rental/valuation matters.

Many thanks.

Yours sincerely

Patricia Lancaster

Cc: Gavin McCloskey