

TAX ISSUES FOR VALUER'S

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Tax Manager

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**First time “Joe
Soap” became a
Valuer**

**When problems
arise with Valuations**

**Valuation of limited
interests (page 36 of
IPAV Diary)**

JOE SOAP



LPT



Asked to value property one day in year
i.e. 1 May 2013

WHAT DID REVENUE DO?

- Issued estimates (42% used estimate)
- Issued “tools” to be used

“TOOLS” ISSUED BY REVENUE

- Obtain copy of professional valuation
- Photographs
- Property sales for comparable properties (www.propertypriceregister.ie)
- House price surveys
- Advertised house prices for comparable prices



VALUATION PROCESS USED BY CORPORATE FINANCE EXPERTS

Ebitda

Net Profit + interests + Taxes + Depreciation + Amortisation
= Adjusted Ebitda

Pharmacy Sector	= 5 – 6 times
Hotel	= 10 – 15 times
Nursing Home	= 8 – 10 times



EBITDA MULTIPLE CASE STUDY

MAN UTD LIMITED

		Audited Year Ending 31st Dec 2014 €	Audited Year Ending 31st Dec 2013 €
Turnover		7,868,527	7,920,152
Cost of Sales		<u>(545,031)</u>	<u>(540,852)</u>
Gross Profit		7,323,496	7,379,300
Margin		93.07%	93.17%
Administrative Expenses			
	Staff Costs	(5,018,015)	(5,025,632)
	Repairs & Maintenance	(558,720)	(504,895)
	General Overheads	(392,974)	(372,589)
	Rent	(500,000)	(500,000)
	Light & Heat	(204,633)	(210,895)
	Depreciation	(348,604)	(342,852)
	Amortisation	<u>(22,185)</u>	<u>(19,523)</u>
Total Administrative Expenses		(7,045,131)	(6,976,386)
Interest		(2,540)	(2,250)
Corporation Tax		(38,788)	(56,343)
Operating Profit		<u>237,037</u>	<u>344,321</u>

2. EBITDA MULTIPLE CASE STUDY: MAN UTD LIMITED

- EBITDA Adjustments

	Actual	Adjustment	
Repairs & Maintenance	558,720	50,000	<i>Adjustment to reflect an a once off exceptional repair in previous year.</i>
Rent	500,000	50,000	<i>Adjustment to reflect an fair market value for rent.</i>

Operating Profit		<u>237,037</u>
Add back		
	Interest	2,540
	Corporation Tax	38,788
	Depreciation	348,604
	Amortisation	22,185
	Repairs & Maintenance Adjustment	50,000
	Rent Adjustment	<u>50,000</u>
<u>Adjusted EBITDA</u>		<u>749,154</u>
<u>Valuation: 10 x EBITDA</u>		<u>7,491,540</u>

WHEN PROBLEMS ARISE WITH VALUATIONS USED

I'm a Valuer get me out of here!!!

“But an opinion of an professional valuer has been obtained”

CGT
Valuations

What
penalty we
can
impose?

Taxpayer



Revenue

REVENUE FOCUS ON VALUATION USED

- CAT Audit Section
- Looking for information on how valued
- Why? - Low value in property market
- Rising market has led to Revenue reviews

CODE OF PRACTICE FOR REVENUE AUDIT

What the Revenue said:

“In the absence of relevant supporting evidence, a professional opinion will not, of itself prevent the application of penalties”



PENALTIES



Ascertain the difference (A) between the valuation figure finally agreed (B) and the figure proposed by Revenue.

REVENUE CRITERIA FOR PENALTY APPLYING



If A not greater than $B \times 30\%$	= No Penalty
If A is greater than $(B \times 30\%)$ but not greater than $B \times 50\%$	= Careless behaviour without significant consequences
If A is greater than $B \times 50\%$ but not greater than $B \times 60\%$	= Careless behaviour with significant consequences
If A is greater than $B \times 60\%$	= Deliberate behaviour

REVENUE PENALTIES



Category of Default	Qualifying Disclosure Finance (No.2) Act 2008	
	Prompted qualifying disclosure and co-operation	Unprompted qualifying disclosure and co-operation
Careless behaviour without significant consequences	10%	3%
Careless behaviour with significant consequences ²	20%	5%
Deliberate ³ behaviour	50%	10%
Category of Default	No Co-operation	Co-operation only
Careless behaviour without significant consequences	20%	15%
Careless behaviour with significant consequences	40%	30%
Deliberate behaviour	100%	75%

VALUATIONS ARE DISCLAIMERS BEEN USED?

A “Tax Head” might use the following:

To whom it may concern

This valuation is prepared on the basis of information available.

This firm will not be held responsible for any variations in the stated valuation or any other figures.

This information is given in confidence for your private use only, and, is given on the express understanding that neither this firm nor any of its employees is to be held responsible for any errors or omissions. If you have any questions in relation to the above or require and additional information, please do not hesitate to contact us.

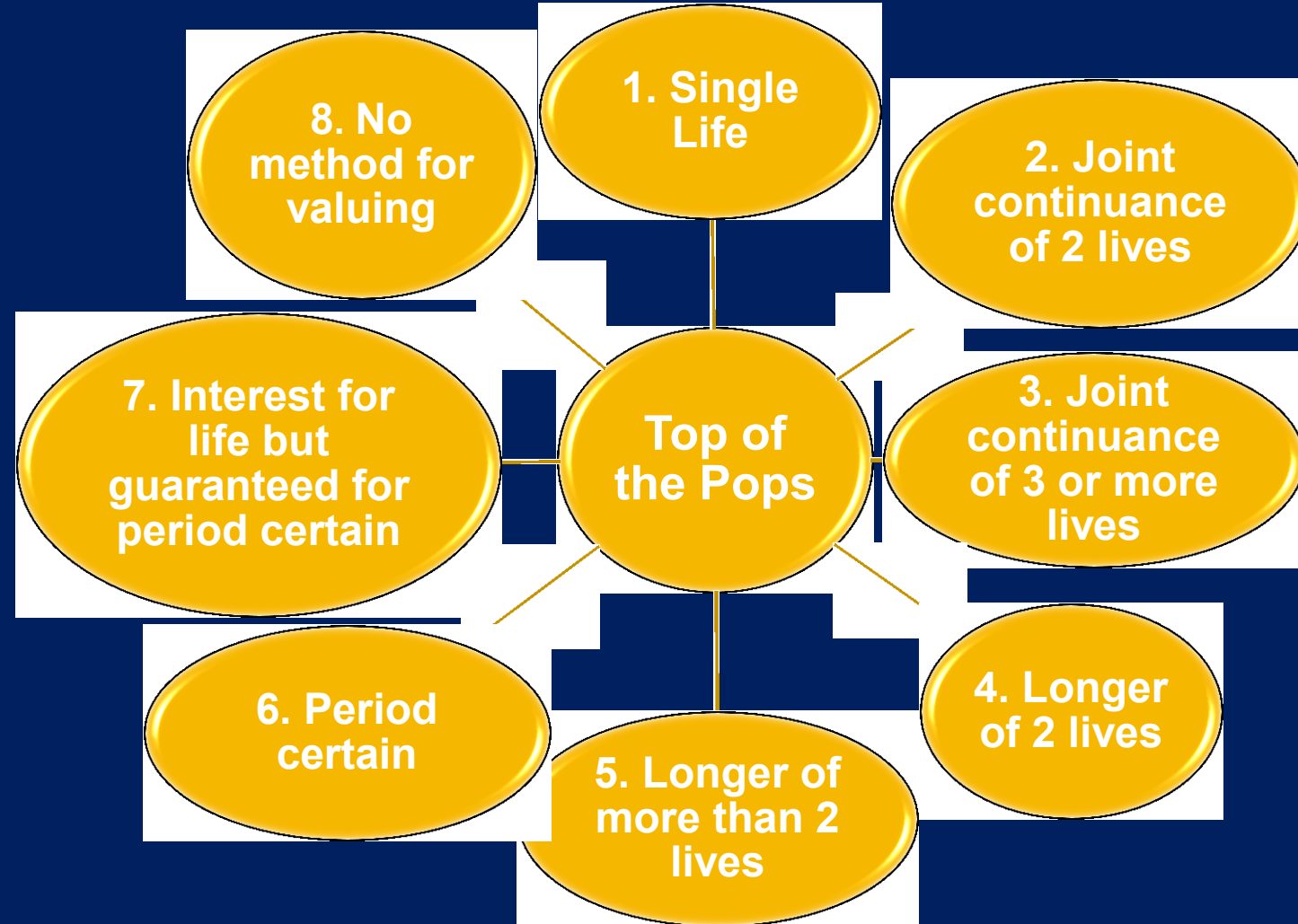
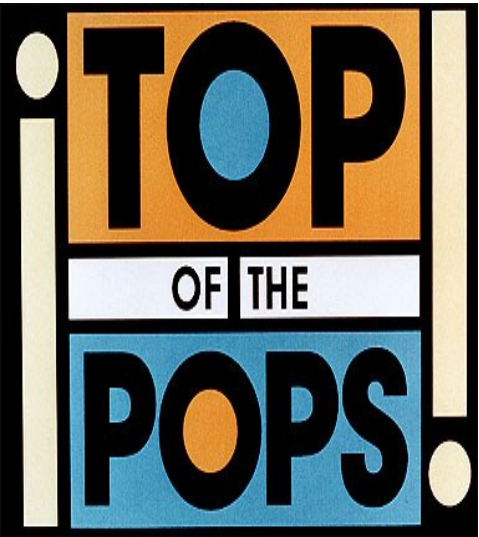


NON-RESIDENT LANDLORDS



- Must file an Irish Tax Return .
- Deduction of tax must occur if no “collection agent” .
- Form available to setup as “Collection Agent”.
- Onus on you to deduct 20% Tax where no Collection Agent in force.

VALUATION OF LIMITED INTERESTS



SINGLE LIFE

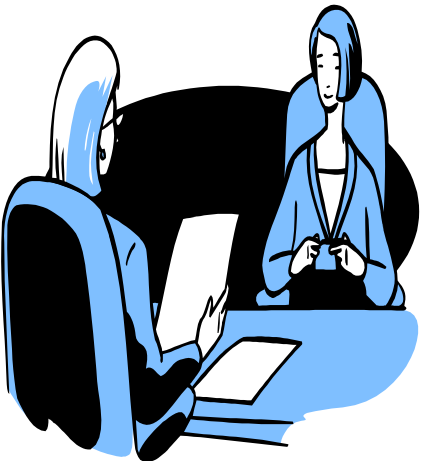
Rule 1)

The value of an interest for a single life shall be that sum X by the factor, contained in Column 3 or 4 respectively of table A, which is appropriate to the age and gender of the person in respect of the duration of whose life the interest is to be valued

1 Life Interest

Name	Alison
Age	50
Details	Takes a Life Interest
Market Value	200,000
Costs	10,000

MV	200,000
Less Liabilities, Costs, expenses	<u>(10,000)</u>
Incumbrance Free value	190,000
Multiply by age factor	0.7791
Value of limited interest	148,029
LESS CONSIDERATION	<u>0</u>
Taxable Value	148,029



JOINT CONTINUANCE OF 2 LIVES

Rule 2)

The value of an interest for the joint continuance for 2 lives shall be the value of an interest in that sum for the OLDER life, ascertained in accordance with Rule 1, X by the joint factor in Column 2 of table A which is appropriate to the younger life

Joint Continuance of two lives		
2	Names	Billy (63) Barry (60)
	Details	Joint continuance of two lives
	Market Value	300,000
	MV	300,000
	Less Liabilities, Costs, exp enses	<u>0</u>
	Incumbrance Free value	300,000
	Multiply by age factor	0.5332
	Multiply by JOINT factor	0.86
	Value of limited interest	137,566
	LESS CONSIDERATION	<u>0</u>
	Taxable Value	137,566
	Taxable value each	68,783

JOINT CONTINUANCE OF 3 OR MORE LIVES

Rule 3)

The value of an interest for the joint continuance of 3 or more lives shall be the value of an interest in that sum for the joint continuance of the 2 oldest of those lives, ascertained in accordance with rule 2 X by the JOINT factor of the youngest of those lives

3 Joint Continuance of three or more lives

Name	Colm (70), Ciara (60), Clare (50)
Details	Joint continuance of three or more lives
Market Value	500,000
MV	500,000
Less Liabilities, Costs, expenses	0
Incumbrance Free value	500,000
Multiply by age factor	0.4173
Multiply by JOINT factor	0.86
Taxable value each	55,028
Multiply by JOINT factor	0.92
Value of limited interest	165,084
LESS CONSIDERATION	<u>0</u>
Taxable Value	165,084
Taxable Value each	55,028



LONGER OF 2 LIVES

Rule 4)

The value of an interest for the longer of two lives shall be ascertained by deducting from the total of the values of an interest in that sum for each of those lives, ascertained in accordance with rule 1, the value of an interest in the capital sum for the joint continuance of the same 2 lives ascertained in accordance with rule 2

4 Longer of two lives

Name	Deirdre (70) and David (60)				
Details	Longer of two lives				
Market Value	400,000				
Value for Deirdre	400,000	x	0.4679 =	187,160	
Value for David	400,000	x	0.5809 =	<u>232,360</u>	single factor
				419,520	
Less					
Value for the joint continuance of two lives ascertained in accordance with rule 2	400,000	x	0.4679	<u>(160,958)</u>	
		x	0.86		
Value of interest in €400k for longer of two lives is				258,562	
Taxable value of inheritance each				129,281	

LONGER IF MORE THAN 2 LIVES

Rule 5)

Where an interest is given for the longest of more than 2 lives, it shall be valued in accordance with Rule 4, as if it were for the longer of the two youngest of those lives

5 Longest of more than 2 lives

Name	Elizabeth (70), Eddie (60) and Eugene (50)				
Details	Longest of more than 2 lives				
Market Value	600,000				
Value for Eddie	600,000	x	0.5809	=	348,540
Value for Eugene	600,000	x	0.7287	=	<u>437,220</u>
					785,760
Less					
Value for the joint continuance of two lives ascertained in accordance with rule 2					
	600,000	x	0.5809		<u>(320,657)</u>
		x	0.92		
Value of interest in €400k for longer of two lives is					
					465,103
Taxable value of inheritance each					155,034



PERIOD CERTAIN

Rule 6)

6 Value of interest in a capital sum for a period certain

Name	Fidelma
Details	House
Market Value	100,000
Period Certain	4 years, 100 days

Value €100k for 5 years	28690	100000	x	0.2869
Value €100k for 4 years	<u>23700</u>	100000	x	0.2370
	4990			

4 years					23,700
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4990	x	$\frac{100}{365}$	=	<u>1,367</u>
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25,067

INTEREST FOR LIFE BUT GUARANTEED FOR PERIOD CERTAIN

Rule 7)

7 In the case of a limited interest where the interest is for life or lives, but is guaranteed for a period certain, the value shall be the higher of:

A) The value of an interest for such life or lives, ascertained in accordance with the appropriate rule in this part of this schedule
and

B) The value of an interest for a period certain, ascertained in accordance with rule 6

Name	Grainne, 40
Details	Pension
Capital Value	250,000
Period Certain	10 years guaranteed
Pension amount	20,000

Value is higher of

A)				
250,000	x	0.8683 =	217,075	
		(age factor)		
B)				
250,000	x	0.4913 =	122,825	
	(10 years certain)			

The Life interest is more valuable and tax is chargeable on 217,075

NO METHOD FOR VALUING

Rule 8)

- 8 The value of a limited interest for which the other rules provide no method of valuing shall be ascertained as if the interest taken were a series of absolute interests in the property applied in satisfaction of the interest from time to time, taken as separate gifts or inheritances as the case may be

Example -an amount that has to be determined annually
Treated as separate benefit

QUESTIONS?



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