

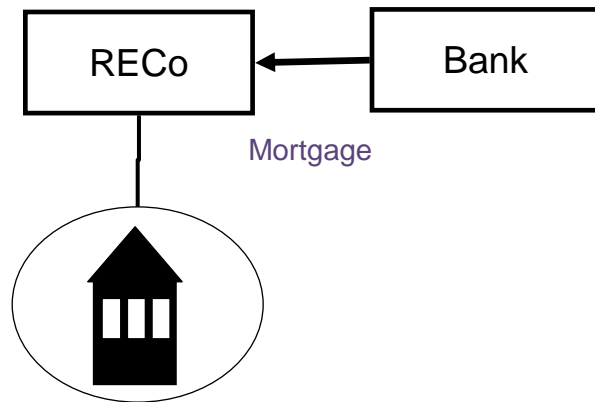
### III. INTRODUCTION TO A CASE STUDY

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**Taxand Real Estate Tax Seminar**  
> Dealing with distress and recovery from the downturn



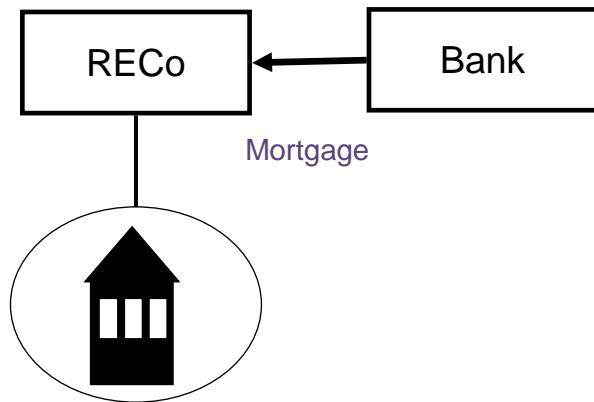
# CASE STUDY



	2007		2008		2009	
Real estate	€	4,000	€	3,920	€	3,840
Mortgage	€	3,200	€	3,072	€	2,944
Equity	€	800	€	848	€	896
Rent	€	250	€	250	€	250
Interest	€	160	€	154	€	147
Depreciation	€	80	€	80	€	80
IBT	€	10	€	16	€	23
Tax	€	3	€	4	€	6
Net income	€	8	€	12	€	17



# CASE STUDY (2)



	2007		2008		2009		2010	
Real estate	€	4,000	€	3,920	€	3,840	€	3,760
Mortgage	€	3,200	€	3,072	€	2,944	€	2,816
Equity	€	800	€	848	€	896	€	944
Rent	€	250	€	250	€	250	€	125
Interest	€	160	€	154	€	147	€	141
Depreciation	€	80	€	80	€	80	€	80
IBT	€	10	€	16	€	23	€	(96)
Tax	€	3	€	4	€	6	€	(24)
Net income	€	8	€	12	€	17	€	(72)

In January 2010 one tenant went bankrupt, reducing rental income With 50% to €125,000.

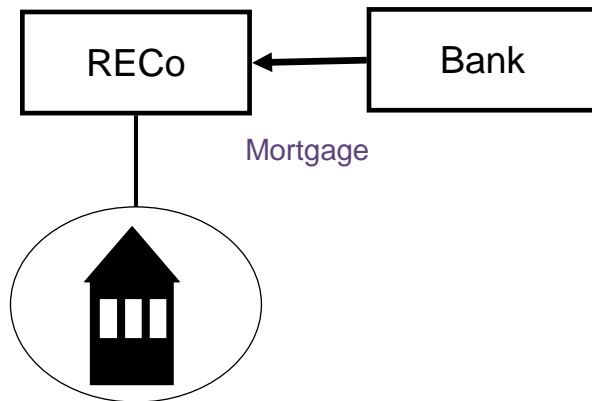
FMV property: 16 x €125,000 = €2 million

**Question**

Can RECo make a tax deductible impairment?



# CASE STUDY (3)



	2007		2008		2009		2010	
Real estate	€	4,000	€	3,920	€	3,840	€	2,000
Mortgage	€	3,200	€	3,072	€	2,944	€	2,816
Equity	€	800	€	848	€	896	€	(816)
Impairment							€	(1,840)
Rent	€	250	€	250	€	250	€	125
Interest	€	160	€	154	€	147	€	141
Depreciation	€	80	€	80	€	80	€	80
IBT	€	10	€	16	€	23	€	(96)
Tax	€	3	€	4	€	6	€	(24)
Net income	€	8	€	12	€	17	€	(1,912)

**Question 1**

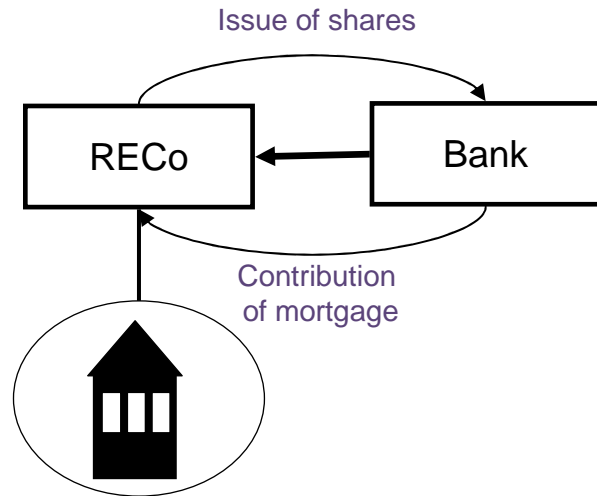
Do accounting rules require that RECo make an impairment?

**Question 2**

If so, do corporate laws require that RECo recapitalise its negative equity?



# CASE STUDY (4)



	2007	2008	2009	2010
Real estate	€ 4.000	€ 3.920	€ 3.840	€ 2.000
Mortgage	€ 3.200	€ 3.072	€ 2.944	€ -
Equity	€ 800	€ 848	€ 896	€ 2.000

Suppose that RECo recapitalises the debt by conversion into shares.

**Question**

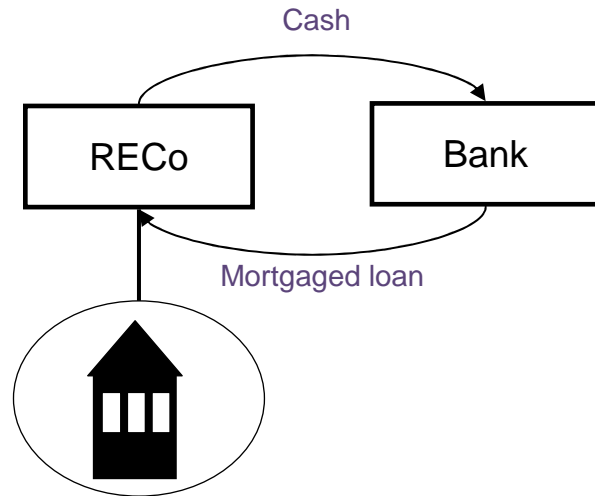
Would the recapitalisation give rise to corporate tax for RECo?

And for the debtor?

Is a recapitalisation subject to transfer tax for either RECo or the debtor?



# CASE STUDY (5)



	2007	2008	2009	2010
Real estate	€ 4.000	€ 3.920	€ 3.840	€ 2.000
Mortgage	€ 3.200	€ 3.072	€ 2.944	€ 2.000
Equity	€ 800	€ 848	€ 896	€ -

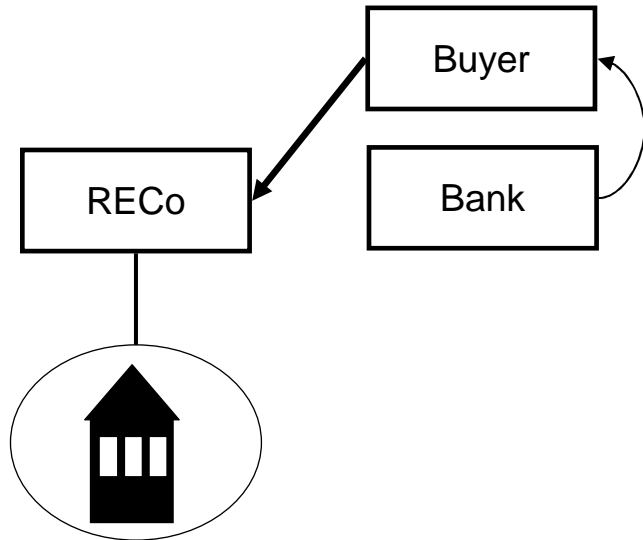
Suppose that RECo rebuys the mortgaged loan from the bank at €2m financed with a loan from a third bank.

### Question

Should RECo report profit on the difference between the outstanding debt (€2.95 million) and the repurchase price of €2m?



# CASE STUDY (6)



	2007		2008		2009		2010	
Real estate	€	4.000	€	3.920	€	3.840	€	2.000
Mortgage	€	3.200	€	3.072	€	2.944	€	2.816
Equity	€	800	€	848	€	896	€	(816)

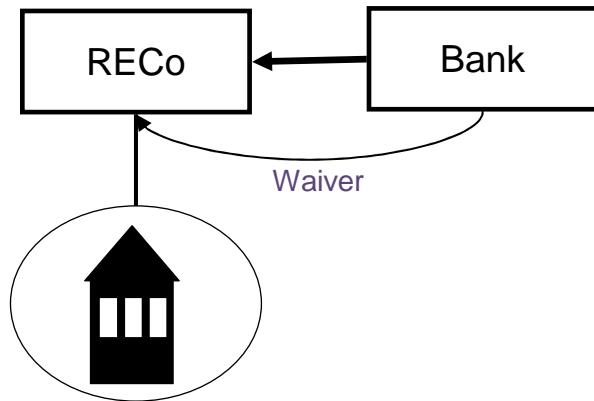
Suppose that Bank sells the mortgaged loan to a third party buyer

### Question

1. should RECo report a profit on the difference between the outstanding debt (€2.95 million) and the purchase price?
2. If the buyer sells the mortgage later at a gain, would the gain be subject to corporate tax and/or transfer tax?



# CASE STUDY (7)



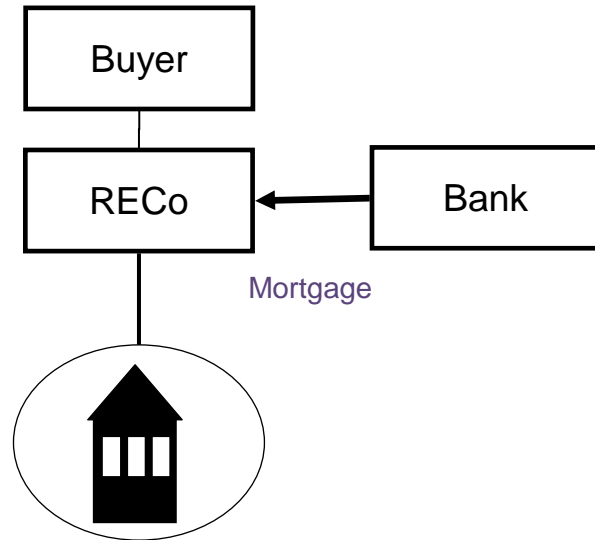
	2007	2008	2009	2010
Real estate	€ 4.000	€ 3.920	€ 3.840	€ 2.000
Mortgage	€ 3.200	€ 3.072	€ 2.944	€ 2.000
Equity	€ 800	€ 848	€ 896	€ -

Suppose that RECo is able to negotiate a partial waiver with the bank

### Question

1. Would the waiver give rise to corporate tax for RECo?
2. And transfer tax?

# CASE STUDY (8)



	2007		2008		2009		2010	
Real estate	€ 4.000	€ 3.920	€ 3.840	€ 2.000				
Mortgage	€ 3.200	€ 3.072	€ 2.944	€ 2.816				
Equity	€ 800	€ 848	€ 896	€ (816)				
Impairment							€ (1.840)	
Rent	€ 250	€ 250	€ 250	€ 125				
Interest	€ 160	€ 154	€ 147	€ 141				
Depreciation	€ 80	€ 80	€ 80	€ 80				
IBT	€ 10	€ 16	€ 23	€ (96)				
Tax	€ 3	€ 4	€ 6	€ (24)				
Net income	€ 8	€ 12	€ 17	€ (1.912)				

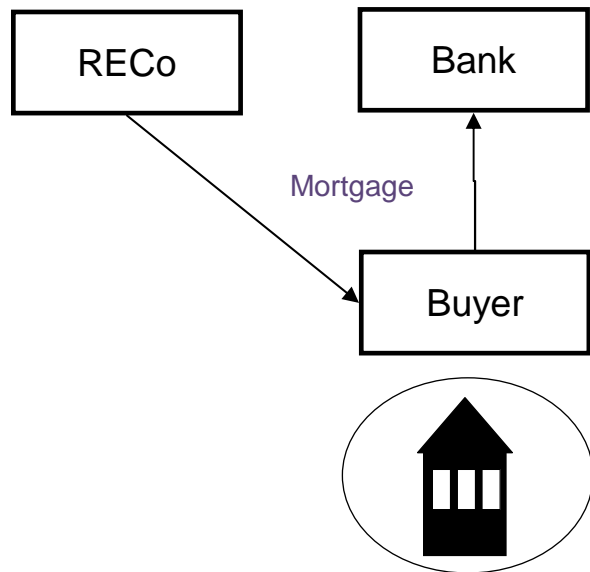
Suppose that a buyer buys the shares RECo at fair market value, i.e. €1

### Questions

1. does RECo keep the historic loss of €96,000;
2. can it take a deductible impairment of €3.84m -/- €2m = €1.84 million and/or
3. can the buyer use the historic depreciation basis of €3.84 million
4. Is the acquisition of shares subject to transfer tax?



# CASE STUDY (9)



	2007	2008	2009	2010
Real estate	€ 4.000	€ 3.920	€ 3.840	€ 2.000
Mortgage	€ 3.200	€ 3.072	€ 2.944	€ 2.816
Equity	€ 800	€ 848	€ 896	€ (816)

Suppose that a buyer buys the property from RECo for €2 million,

- can it get a step up in the depreciation basis, e.g. to €3.84 million?
- if not, are structuring alternatives available to get such step up?

# OTHER QUESTIONS

1. If debt equity ratios apply, are they calculated by reference to historic equity invested (€0.8 million) or by reference to market value and losses incurred, i.e. € nil.
2. How do to you prepare for a subsequent refinancing if buying an asset at low value with nil or low bank debt?