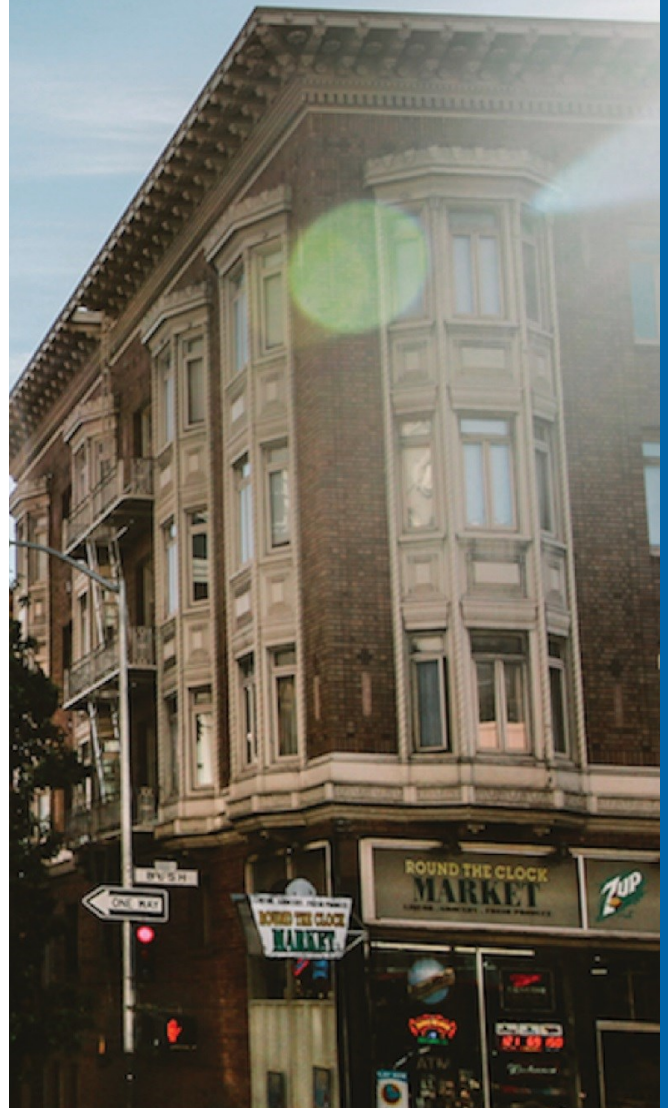


Guidance for non-residents owning and renting out UK property.



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Introduction

As a Non-Resident Buy-To-Let landlord (“NRL”) it is important that you are aware of the associated tax regulations and the implications they may have on you and your investment.

This is why Parker Cavendish Chartered Accountants has created this accessible guide to the tax issues relating to Buy-To-Let. Good tax planning is always key. The way you implement, manage and run your tax affairs can have a major impact upon your property investments and their financial profitability.

Our comprehensive guide provides invaluable information about Self-Assessment Tax Return and Capital Gains Tax matters that you will encounter. From the property purchase to the eventual day of sale, this guide will help you to avoid the common tax pitfalls and help you to make tax work for your business and so ultimately provide you with extra cash to invest.

All figures in this Guide are correct as of April 2019.

A Property Investment Strategy

Before you purchase your first or next investment property, it is important that you have a strategy to minimise your tax liability.

If you don't, it is likely that you will pay more tax than necessary.

For example, it is advisable that you have an overall 'Exit Plan' for the property – i.e. a plan for what you want to do with the property at the end of ownership.

Considerations like Capital Gains Tax planning and Inheritance Tax planning are ideally best addressed at the outset, prior to the purchase. Although these tax bills are encountered at the end of the period of ownership, time spent planning before the actual purchase of the property can help minimise these bills when they do occur. It is also important that you have a Will to avoid unwanted disputes. The utilisation of tax breaks should also be considered at this stage and you should review your Inheritance Tax position on an ongoing basis in order to identify whether any additional tax planning is required.

Owning property through a Limited Company

One of the most commonly asked tax questions is whether holding properties in a Limited Company, rather than as an individual or partnership, will save tax. Unfortunately, there is no definitive answer as it depends on a large number of factors, such as your personal circumstances, funding options available to you and for how long you intend to hold the properties. Any future changes in legislation could also affect the decision. For further details, please see below.

What is a Limited Company?

A company holds a separate legal status to its owners. This means that if you use a Limited Company to buy a property, its name will appear on the title deeds rather than yours. The ownership of the company depends upon who holds the shares (the shareholders). There only needs to be one shareholder, so you could hold the company's only share and be the sole owner. Alternatively there can be many shareholders. Shareholders are entitled to their share of the profit in the company and this is usually paid out in the form of dividends.

How is rental income taxed in a Limited Company?

Instead of income tax, Limited Companies pay Corporation Tax (CT) on their profits. For periods starting April 2018 the rate applied to all companies is 19%.

If you're a higher rate taxpayer in the UK, you would pay 40% on your net rental income if you owned the property personally, (45% if your total income exceeds £150,000). In a Limited Company, the company would only pay 19% on rental profits, provided that the rental property is held within a company.

How are Capital Gains taxed in a Limited Company?

Unlike sole owners and partnerships, a company doesn't pay CGT on any capital gains it makes on the sale of property – it pays CT instead. Any capital gains are added to the company's rental profits in the year and the company then pays CT at 19%. As a sole owner, the CGT rate is 18% for a basic rate taxpayer and 28% for a higher rate taxpayer.

A company also doesn't qualify for the annual CGT allowance or other reliefs available to individuals.

Therefore, you could be worse off owning rental properties in a Limited Company than in your own name but it is always best to seek advice from a specialist.

An annual tax charge may be incurred on non-natural persons (a company, a partnership with a company member or a collective investment scheme) who own UK residential dwellings, under the Annual Tax On Enveloped Dwellings (ATED) rules. ATED applies where the single dwelling is worth more than £500,000 on 1 April 2012, or at acquisition if later. Reliefs may be given for example where the dwelling is let to a third party on a commercial basis, or the property forms part of a property developers trade, but you can only claim them if an ATED return is completed and submitted.

Stamp Duty Land Tax

Stamp Duty Land Tax (SDLT) on residential properties is now calculated on a banding structure, at the following rates:

Property Price	Rate
Up to £125,000	0%
The next £125,000 (£125,001-£250,000)	2%
The next £125,000 (£125,001-£250,000)	5%
The next £575,000 (£925,001-£1.5m)	10%
The residual amount (Over £1.5m)	12%

If six or more properties are purchased in one transaction then the rates and thresholds for non-residential properties apply. The total value of all properties will establish the SDLT payable, but Multiple Dwellings relief may apply to reduce the amount payable.

For properties over £500,000 an SDLT rate of 15% is applied if the property is acquired by certain non-natural persons (a company, a partnership with a company member or a collective investment scheme).

Where the property is a second home or Buy-To-Let investment and the value exceeds £40,000, an additional 3% SDLT charge will be payable on top of the existing rates above.

Separate Bank Account

You should hold a separate bank account for your rental business to record all rental income received and expenditure incurred.

There is an obligation to record details of all income and expenditure in respect of property activity. You are also required to retain the records and provide these to HM Revenue and Customs in the event of an enquiry. Records can be held in either paper or electronic format.

We would recommend discussing your books and records with us, in order that they are sufficient for both our use and also your management of the property portfolio.

Income Tax and Capital Gains Tax

Income Tax:

The letting agent collecting the rent on behalf of a non-resident landlord must deduct tax from the rental income and pay the tax deducted to HM Revenue and Customs, unless a written exemption has been received from HM Revenue and Customs not to do so. If you are an overseas landlord we can apply to have the rent paid gross by completing form NRL1.

So long as your tax history is good and your tax affairs are up-to-date, you should be issued with a certificate. This will authorise the letting agent to pay you rent without deduction of tax. At the end of each year, you are obliged to submit a UK Tax Return showing details of your rental income and expenditure. We will be able to assist you with these filings if you appoint us as your accountant to handle your tax affairs in the UK.

Capital Gains Tax:

You need to tell HM Revenue and Customs if you have sold or disposed of a UK residential property, by completing an online declaration within 30 days of conveyance. A report is required in all circumstances, even if a Self-Assessment Tax Return is being filed, or if there is no tax liability on the disposal of the property. When you report the disposal you can elect to pay any liability as part of your normal end of year tax payment. If however, you are not filing a Self-Assessment Tax Return, the due date for payment will be within 30 days of conveyance.

Allowable expenses

Prior to the property letting

Care needs to be taken when assessing expenses prior to the property letting, as to whether these are deductible from rents received. Costs associated with the purchase or improvement of the property are classed as capital and therefore not allowable deductions in the rental accounts. Relief for these costs will be given on the eventual sale of the property.

However, many other costs incurred prior to letting a property may be claimed, for example, pre letting advertising and management fees.

Ongoing

Only those expenses incurred “**wholly and exclusively**” in generating income are allowable.

- Mortgage interest – You may claim partial tax relief on interest payments on a mortgage or loan taken out to fund the purchase, refurbishment or repair of a let property.
- Water rates - You can include the full amount of water, sewerage and any other rates paid on the property, if these are not paid by the tenants.
- Insurance - You may include all insurance policies paid by you in connection with your property.
- Service charge, ground rent - You can include the service charge and ground rent on the let property in question if these are not paid by the tenant.
- Council Tax - In certain circumstances, a landlord may be liable for Council Tax. This could then be included as an allowable expense.
- Legal - Legal fees in respect of ongoing tenancies are allowable.
- Accountancy - Any accountancy costs can be offset as long as they relate directly to the let property.
- Repairs and maintenance - When making repairs to your let property you may be able to go beyond replacing ‘like with like’ and make an improvement, although you need to be careful about how much of an improvement you make. For example, HM Revenue and Customs are unlikely to permit the replacement of a tatty bathroom with a spa bath and other luxury items. However, HM Revenue and Customs may be agreeable to replacing wooden window frames with UPVC. Professional advice should be sought from a specialist property accountant.
- Management or Letting Agent’s fees - You may claim tax relief on any management or letting agent expenditure. On request, at the end of the tax year, the letting agent should be able to provide you with details of your rental income and management fees.

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- Motor vehicle costs for visiting/inspecting the property - As long as they are appropriate to the circumstance and are incurred visiting the rental property, petrol and vehicle costs are an allowable expense. You should speak to your accountant to identify what is and isn't deemed to be an acceptable expense.
 - Advertising - Any costs you incur advertising for tenants to fill your rental property are allowable.
 - Rent a Room – Where rental income is derived from letting a room within your main residence, Rent a Room Relief of £7,500 may be deducted from the rents received when calculating the taxable amount.

Property Sale Capital Gains Tax (CGT)

Should you sell your property, you may become liable for Capital Gains Tax.

Any profit made on a property other than a main residence is subject to Capital Gains Tax at 18% if your total income and gains are within the basic rate tax threshold. If your total income and gains exceed the basic rate threshold, CGT is charged at 28%. When you sell you will have to pay the CGT by 31 January following the tax year in which you sell the property. However, your Capital Gains Tax bill can be reduced by a number of reliefs summarised on page 7.

Tax laws are extremely complex. We therefore suggest that you obtain appropriate professional advice at the earliest opportunity in order that matters can be related to your personal circumstances.

Parker Cavendish Chartered Accountants specialise in business and tax planning advice. Our aim is to help our clients to increase their profits and reduce their tax liabilities and in doing so provide peace of mind. We enjoy a strong reputation for truly looking after our clients. We are a friendly face with powerful advice.

We are happy to offer a free, no obligation, initial consultation on any Buy-To-Let tax matter arising from this guide. So please get in touch if you wish to discuss any aspect of Buy-To-Let investment.



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