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UK PROPERTY PURCHASE - STRUCTURING and TAX CONSIDERATIONS

The United Kingdom continues to attract investors from all over the world who invest in residential and/or commercial real estate due to a stable and mature property market, legal protections, relatively good returns, professional support systems and because UK is considered one of the most attractive and prestigious jurisdictions in which to own property. The recent BREXIT referendum result and the subsequent fall in the value of Sterling offers investors a great opportunity to acquire real estate assets at lower cost. Tax issues are very clear and whilst HMRC has started to tax more and reduce benefits, most investors seem un-deterred. The first consideration when buying a property is whether to buy in a personal name or through a corporate structure. The benefits of owning property through a corporate entity have been reduced over the years. The chart below summarises the main taxation considerations for property acquisitions in England & Wales (different in Scotland). Please seek professional advice before entering into any commitment.

STRUCTURE OPTIONS	PURCHASE IN INDIVIDUAL NAME	PURCHASE IN NON-UK CORPORATE ENTITY NAME	COMMENTS
STAMP DUTY LAND TAX **(SDLT)**	Purchase Price — Stamp Duty Payable Under £125k — 0% £125k - £250k — 2% £250k - £925k — 5% £925 - £1.5m — 10% Over £1.5m — 12%	SDLT is payable at 15% on all residential properties costing more than £500k.	Charged on the portion of the property falling within each band. SDLT on multiple purchases (ie: “student accommodation”) is paid on the average price with a minimum rate of 1% if less than £125k. Additional charge of 3% if not main residence or second home.
RENTAL INCOME **(IT)**	IT is paid on a sliding scale as follows: £0k - £31,785 — 20% £31,786 - £150,000 — 40% Over £150,000 — 45%	IT on rental income from properties owned by a non-UK corporate entity is set at a flat rate of 20%.	Commonwealth citizens may be entitled to personal tax free allowance. Payable on “net” income after deduction of certain expenses. Loan interest relief and allowable expenses relief is restricted [see below].
CAPITAL GAINS TAX **(CGT)**	CGT for individuals with total annual UK source income + gains taxed as follows: £0k - £31,785 — 18% Over £31,785 — 28%	CGT on properties owned by a non-UK corporate entity is set at a flat rate of 20% (no exemption applicable).	Individuals are permitted an annual exemption (currently) £11,100.
ANNUAL TAX ON ENVELOPED DWELLINGS **(ATED)**	NOT APPLICABLE	Residential properties valued £1 million or more (£500k from April 2016) as follows: £500k - £1m (wef April 2016) the charge will be £3,500 £1m - £2m — Charge £7,000 £2m - £5m — Charge £23,350 £5m - £10m — Charge £54,450 £10m - £20m — Charge £109,050 £20m plus — Charge £218,200	Returns need to be submitted by 30th April every year. Not chargeable if property is let to non-connected party on commercial basis and not occupied by the owner or connected person. A business of owning and letting commercial properties is exempt from ATED.
INHERITANCE TAX **(IHT)**	All property in the UK when individually held is liable to IHT (irrespective of nationality / domicile etc.) at a flat rate of 40% on the value in excess of £325k (or £650k if married).	HMRC has announced its intention to levy a form of IHT on property held by corporate entities with effect from April 2017 and will be payable on the death of the shareholder of the corporate structure. [No further details known] Special rules will apply where a Trust in involved. Currently there is an on-going consultation process.	Individual threshold being gradually increased by £175k on property passing onto immediate family on death.

OTHER ISSUES

- Currently landlords are able to reduce their “taxable net income” by offsetting a wear and tear allowance equal to 10% of rental income as the cost of maintaining their property. With effect from April 2016, this general allowance is being scrapped and only actual allowable costs will be permitted.
- Currently landlords are able to offset mortgage interest costs (incl finance fees) against rental income. With effect from April 2017 this relief will be phased out over four years and only be available as a basic rate reduction against the income tax liability.

α α α THIS IS A COMPLICATED SUBJECT AND EACH INDIVIDUAL CLIENT HAS DIFFERENT REQUIREMENTS. POINTS ABOVE HAVE BEEN CONDENSED OUT OF NECESSITY. PLEASE SEEK PROFESSIONAL ADVICE. α α α