UK Taxes associated with owning A property in the UK

The basics

A common misconception non UK residents who own UK property have is that they do not have to pay UK taxes as the UK is not their home. **WRONG!** If you own a UK property and earn income from it, you need to ensure you are fully compliant with the UK Tax Authorities.

What taxes do I need to be aware of?

There are three main taxes you need to consider:

1) Tax on the initial purchase, known as **Stamp Duty**, is payable when you first buy a property (if the purchase price is over £125k). For individuals the tax is between 0% and 7% of the purchase price.

2) Tax of up to 28% of the gain in value when you sell a property, called **Capital Gains Tax**, is payable when you sell a property for a profit. Currently this tax does not apply to non-residents. However, from 5 April 2015, this tax will also apply for non-residents.

3) **Income Tax** is payable on all rental income (less relevant costs and reliefs) from UK property regardless of your residency status. As a non-resident, you may be able to deduct the income tax you pay in the UK against your income tax bill in your home country, depending on the country you are in.

Your solicitor should sort out your Stamp Duty payments automatically as part of the initial purchasing process. However, disclosing your Capital Gains and Income are not automatic. You need to communicate with the UK Tax Authorities by joining the HMRC Non-Resident Landlord (NRL) Scheme and also by submitting Self-Assessment Tax Returns.

HMRC NRL Scheme

This scheme basically introduces you to our Tax Authorities so that they know how to contact you and they know you have income to declare. They ask that tax is deducted and retained by your property management company on behalf of HMRC until your membership has been granted.

Please note, it is only possible to register with HMRC as a non-resident landlord if your UK tax affairs are fully up to date. If not, get in touch with us and we can help settle your historic affairs. This is important, as your actual tax due on renting your property is probably going to be substantially less than the tax deducted by your agent, as we can include other tax deductible costs and your personal allowance

Self-Assessment Tax Returns

If you receive rental income you are required to submit a Tax Return for each tax year that income has been received. If you have received a Capital Gain you will need to prepare a Tax Return for that year only.

A tax year runs to 5 April each year, and the Tax Return must be submitted, along with payment of any taxes due, by the following January at the very latest.

How do I calculate my taxable rental income?

The income that is taxed is the gross rent your tenants pay you to live there less various tax deductible costs including:

- Mortgage interest (but NOT capital repayments),
- Estate agent, property management company and accountants fees,
- Repairs costs (but NOT capital improvement costs),
- Insurance, rates, phone, legitimate travel costs and many other reasonable expenses. We can advise which costs can be deducted

If you rent your property as a FURNISHED property, you can deduct 10% of the gross rental income to allow for wear and tear costs of the furnishings. This is often a very generous allowance, so you should consider furnishing your property for rental where possible.

The UK personal income tax rates are currently (as at 2013/14) as follows:

- You can receive £9,440 of net annual income before any tax is charged (this may or may not be available for you depending on which country you live in
- After this allowance is used up you are taxed at 20% of net income up until you earn total income of over £41,450
- Then it increases to 40% on income earned over £41,450 (increasing further to 45% once you reach £150,000 income)
- If you own several properties the collective profits and losses of each property are pooled for tax purposes, and if in a year you have made a net loss across all UK properties, the loss can be carried forward against future rental profits

Joint ownership

If you own your UK property jointly, such as with a business partner or your wife, each individual will need to disclose half of the income to HMRC. So both of you would need to register on the NRL Scheme, and both will have to submit Tax Returns. However, the benefit is the total tax payable may be lower than if the property was owned solely by you as the shared income is likely to fall in to lower tax rate bands.

Property owned through a company

You could also consider setting up a company and having the company own investment property. However, apart from the increased statutory burdens of running a company, there are also certain other tax issues:

- If you set up a UK company you would have to pay corporation tax on your rental profits and capital gains tax on gains, AND you may also have to pay additional tax to extract the profits from the company.
- There are also new taxes associated with overseas companies owning properties including an annual flat rate tax and a higher stamp duty rate of 15%.

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