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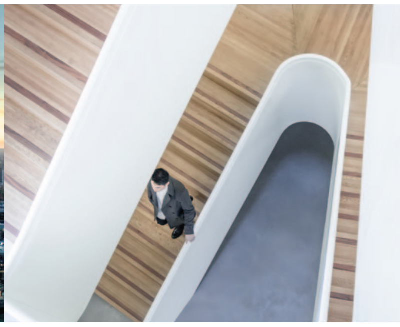

Property Tax

SINCE BUY-TO-LET (BTL) MORTGAGES FIRST BECAME AVAILABLE IN THE MID-1990s, THE NUMBER OF INVESTORS HAS SOARED. EVEN FOLLOWING THE FINANCIAL CRASH, THE BTL INDUSTRY HAS REMAINED BUOYANT.

One of the more challenging aspects of property investment is ensuring that if you own property personally, you comply with the various tax obligations. With this in mind, Wilson Wright has produced this guide to the rules that you need to be aware of. Please note that it should be taken as a general introduction only and it is important to seek expert advice for further clarification. In addition to the basic details noted below there are many other tax issues in relation to property that should be considered as well.

INCOME TAX

Income tax is due on any taxable profit from rental activities. Any loss from rental activities is carried forward and is set against future profits. Profits and losses are calculated to 5th April each year and must be reported to HMRC. Failure to report to HMRC in a timely manner may result in penalties.

The rules for the calculation of profits and losses can be complex, particularly when considering mortgage interest, repairs/renewals and the difference between revenue and capital expenditure. It is obviously important that profits or losses are calculated accurately as any errors may result in too much tax being paid, or an HMRC enquiry that results in additional tax, interest and penalties.

INHERITANCE TAX

Rental properties do not generally qualify for any inheritance tax reliefs, and therefore investors who have built up a considerable property portfolio may face significant IHT liabilities.

The team at Wilson Wright can advise on the options available for minimising your IHT liability, including transferring assets into trusts or transferring an interest in property gradually over a period of time.

CAPITAL GAINS TAX

On the sale or gift of a property a taxable gain or an allowable loss will arise. In practice, the property market in the UK has performed consistently well and a profit generally arises on the disposal of property. The rules for the calculation of the taxable gain on the disposal of property are complex.

As part of the Government's continued attack on property ownership, the CGT rate for residential property is 28% (rather than 20% for most other disposals), non-residents are also liable to CGT on UK property. UK residents and non-residents are required to report their disposals within 30 days or incur penalties, and from April 2019 UK residents will also be liable to report their property disposals and pay their CGT within 30 days.

STAMP DUTY LAND TAX

On the purchase of UK property a liability to SDLT arises. At present the tax bands are as follows:

• Up to £125,000	Zero
• £125,001 to £250,000	2%
• £250,001 to £925,000	5%
• £925,001 to £1.5 million	10%
• Above £1.5 million	12%

There is an additional 3% surcharge applied to buy-to-let properties and second homes.

ANNUAL TAX ON ENVELOPED DWELLINGS (ATED)

Since April 1st 2013, ATED has been levied annually on high-value residential properties that are held by a 'non-natural person' such as a limited company.

The amount of tax due is calculated using the value of the property. The ATED bands for 2018/19 are as follows:

• £500,000 – £1million	£3,650
• £1million – £2million	£7,400
• £2million – £5million	£24,800
• £5million – £10million	£57,900
• 10million – £20million	£116,100
• More than £20million	£232,350

Returns have to be filed by 30th April each year (or, if later, within 30 days after the property has been acquired).

The Annual Tax on Enveloped Dwellings (ATED) is not payable where a property is let commercially to a third party but a return claiming exemption still needs to be submitted.

TAX ADVICE FOR NON-RESIDENT OR NON-DOMICILED INVESTORS

A non-resident is liable to UK income tax on UK rental profits. Such an individual should ensure that they are registered under the Non-Residents Landlord Scheme

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to ensure that his letting agent does not deduct tax at source. The ability to claim a personal allowance (under domestic legislation or under the terms of a double tax treaty) or claim that some income is "disregarded" should also be explored.

Non-domiciled individuals should be aware that UK property will be liable to UK inheritance tax, and that their affairs are tax compliant following wholesale changes to the taxation of UK property owned through trust or company structures.

To find out more about what they can do for you, visit: wilsonwright.com or call 020 7832 0444

MEET THE TEAM

If you require further information or guidance on any of the matters in this guide, do not hesitate to contact the Wilson Wright team.

For full details of our services please visit wilsonwright.com or call 020 7832 0444.

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