

## Tax Update in UK



**The tax laws in the UK are getting more and more complex. If you own property in the UK, you will need to be aware of some of the new changes to THE law and how they may affect you.**

# Tax Update in UK

Question	Answer
<i>How does the UK tax individuals?</i>	<p>Whether or not your income and gains are subject to tax in the UK is dependent on two main factors:</p> <p style="text-align: center;">Your residence position, and</p> <p style="text-align: center;">Your domicile status</p> <p>An individual's residence and domicile position will depend on their particular circumstances, and in some cases can be complex to determine.</p>
<i>What is domicile?</i>	<p>Long term – Where you have your permanent home.</p> <p>Very often, your domicile is the country that you consider to be your permanent home, or that you have a substantial connection with.</p>
<i>What is residence?</i>	<p>Short term – The country where you are living in a tax year.</p> <p>Generally, residence is referred to as the place where you live. Residence is of a more temporary nature compared to domicile.</p>
<i>If I was born outside the UK, why should I worry about my domicile status?</i>	<p>In the UK, there is also the concept of 'deemed domicile' that can apply to people who live in the UK but are not UK domiciled.</p> <p>Under new proposed rules, if you have been resident in the UK in at least 15 out of the previous 20 tax years, you will be 'deemed domiciled' in the UK. Being considered 'deemed domiciled' may make you liable for inheritance, income and capital gains taxes under UK law.</p>
<i>I live in the UAE and only come to the UK for business or on holiday. If I don't reside in the UK, do the residence rules still affect me?</i>	<p>You don't need to actually live in the UK to be caught by the rules that can make you UK resident for tax purposes. There are a number of factors and circumstances under the Statutory Residence Test rules that determine if you are resident or not.</p> <p>One of these factors is the number of days you are in the UK for any tax year. Depending on the number of connections (or ties) you have to the UK, you could find that your regular holidays in London have made you UK resident and subject to UK tax laws for that year!</p>
<i>Do I need to pay any taxes when I buy a property?</i>	<p>Stamp Duty Land Tax (SDLT) is payable on a progressive basis on the purchase of any residential property. The tax rate starts at 0% for properties with a value of up to £125k, and increases</p>

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	<p>incrementally, with a 12% rate applicable to properties valued at £15m+.</p> <p>Also, as of April 2016, an additional 3% charge will be applicable on top of the initial SDLT tax rate on the purchase of all buy-to-let property, or on the purchase of a second home for yourself.</p>
<i>What about if I sell a property?</i>	<p>As a non-UK resident individual disposing of residential property, you may be subject to Non-Resident Capital Gains Tax (NRCGT). This may be the case whether you hold the property directly, or via a company or trust, though the tax rates differ depending on how the property is held.</p>
<i>Are there any other UK taxes that could apply while I own UK property?</i>	<p>You should be aware of the UK inheritance tax rules that apply to anyone who holds UK assets, including property.</p> <p>If the value of your UK assets exceed £325,000, then, upon your death, the property may be subject to inheritance tax at a rate of 40%.</p>
<i>My UK property is held by a corporate entity. Do the taxes due remain the same?</i>	<p>Residential properties held by companies, whether in the UK or offshore, are also subject to SDLT and NRCGT, though the rates differ.</p> <p>In addition, any residential property valued at more than £500,000 and held wholly or partially by a company may be subject to an Annual Tax on Enveloped Dwellings (ATED). The annual charge applicable is dependent on the value of the property, and starts at £3,500 for properties valued at £0.5m-£1m, and goes up to £220,350 for properties valued at £0.5m-£1m, and goes up to £220,350 for properties valued at more than £20m.</p> <p>Finally, it used to be the case that UK residential property held by offshore companies were outside the scope of UK tax. Under proposed laws, UK property held via a corporate entity may also be subject to inheritance tax.</p> <p>Where UK property is owned through an offshore company, HMRC might have difficulties in identifying when an inheritance tax liability arises. It is therefore proposed that such properties cannot be sold until any outstanding inheritance tax is paid. The obligation to report and pay the inheritance tax will be imposed on any person who has legal ownership of the property, including any directors of the company which holds the property.</p>
<i>What about trusts?</i>	<p>The SDLT and NRCGT rules apply to trusts as well. Furthermore, in addition to the inheritance tax charge applicable on death,</p>

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	<p>there are 2 additional circumstances that give rise to inheritance tax for properties held by trusts:</p> <ol style="list-style-type: none"><li data-bbox="651 383 1321 450">1. <b>When the property is transferred into the trust</b> – a 20% inheritance tax charge is applicable at this point;</li><li data-bbox="651 488 1353 589">2. <b>Every 10-year anniversary</b> – an inheritance tax charge is applicable on every 10-year anniversary of the trust at a current maximum rate of 6%; and</li><li data-bbox="651 627 1326 728">3. <b>When the property is transferred out of trust</b> – an inheritance tax charge is applicable, and the exact tax rate is dependent on a number of factors.</li></ol> <p>As such, even if your UK residential properties are held offshore, HMRC will look through the offshore structures, and tax the ultimate beneficial owner accordingly, whether that is an individual or a trust.</p>

### Summary

- If you are coming to the UK regularly, then get advice on how many days you can spend in the UK.
- If you own UK property through a structure, you should seek advice on the tax implications of keeping or unwinding that structure, and the consequence of owning the property directly.