Non-resident Landlords.



There are several taxes which a non-resident landlord (NRL) should be aware of, including income tax, capital gains tax, corporation tax, the annual tax on enveloped dwellings (ATED) and a potential maximum of 19% stamp duty land tax (SDLT) charge.

A non-resident landlord is a landlord who has UK rental income and whose 'usual place of abode' is outside the UK. This covers cases where someone lives abroad for 6 months or more in a year or, for example, a non-resident company. This can even apply where an individual remains a 'UK resident' for other tax purposes. The NRL Scheme applies to UK rental income paid to non-resident landlords (both individuals and corporates) and the compliance requirements can affect landlords, tenants and letting agents. The purpose of the scheme is to ensure that non-residents are taxed on their rental income from UK properties. The NRL Scheme requires tax to be deducted at 20% by either the tenant or letting agent as appropriate - unless the landlord obtains permission from HMRC to receive the rental income gross.

NRL individuals are charged under the income tax regime (0% - 45%). NRL individuals are required to submit an annual self-assessment tax return and to pay their tax liability by 31 January following the end of the tax year.

From 06 April 2020, NRL companies are charged under the corporation tax regime. Prior to that date, UK property income of NRL companies was charged under the income tax regime. The corporation tax charge, as well as applying to property income of a UK property business, also applies to so-called 'other UK property income' which comprises land rents receivable from certain sources which are taxed as trading profits, rent receivable for UK electric-line wayleaves and post cessation receipts arising from UK property businesses. The corporation tax charge also extends to related profits from loan relationships and derivative contracts.

NRLs can offset the tax deducted under the scheme against their own tax liability when they complete their UK Self-Assessment Tax Return or UK Corporation Tax Return.

Tenants and letting agents under the NRL Scheme must deduct tax from the NRL's rent and pay it over to HMRC in quarterly instalments. They are obliged under the scheme to account to HMRC annually with an information return for the year to 31 March. Tenants are not required to deduct tax if they pay rent to a letting agent in the UK and/or pay rent of £5,200 or less per year.

Penalties and interest can apply where the compliance and payment requirements of the NRL scheme are not met.

Since April 2019, NRL individuals may also be subject to capital gains tax on direct disposals of all UK land and property, and indirect disposals of assets that derive at least 75% of their value from UK land (i.e., 25% shareholdings in property rich companies). All other relevant disposals in the year must be considered when reviewing if a charge to capital gains tax arises. Prior to this, NRL individuals were subject to capital gains tax on direct disposals from 06 April 2015 of UK residential property only. NRL individuals must report UK residential property disposals, regardless of whether a tax liability arises, to HMRC within 60 days of conveyance of the property.

From 06 April 2019, NRL companies are subject to corporation tax on chargeable gains arising on direct disposals of all UK land and property, and indirect disposals of assets that derive at least 75% of their value from UK land. Prior to this, NRL companies were subject to capital gains tax on direct disposals from 06 April 2015 of UK residential property only in the same way as NRL individuals.

Where the property has been owned throughout a period that straddles 06 April 2019 (or 06 April 2015 for UK residential properties), the NRL will be subject to tax chargeable gain calculated as the difference between the disposal proceeds received and the market value as at 05 April 2019 (05 April 2015 for UK residential properties). Alternatively, an NRL can choose to calculate the chargeable gain by time apportioning the difference between disposal proceeds received and original cost where it would be more favourable to do so.

In the case of an indirect disposal of UK land, there is an exemption where at least 75% of the value is derived from properties used in a trade e.g. retail premises owned directly by a retail trading company.

ATED and SDLT

ATED and SDLT NRLs who invest in residential property and are 'non-natural persons' e.g. companies, should also be aware of ATED compliance obligations and a potential 19% rate of SDLT on acquiring a residential property (17% for purchases on or before 30 October 2024). ATED can give rise to a significant annual tax charge. The 19% SDLT rate consists of a 2% surcharge for non-residents plus a 17% SDLT (previously 15%) rate for purchases over £500,000, the latter of which can result in a significant additional cost at the point of investment if no relief is available.



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Please note that this summary is not intended to give specific technical advice. It is designed to highlight some of the key issues rather than provide an exhaustive explanation of the topics. Professional advice should always be sought before action is either taken or refrained from as a result of information contained herein.