NRL companies - Are you ready for the changes?

After 6 April 2020, non-resident landlord companies (NRLs) will no longer be subject to income tax on their rental income received, but to corporation tax instead. This change is only for non-resident companies who are within the NRL regime, but will result in a significant change to the way these NRLs are taxed.

As a result of the changes, a set of transitional rules for accounting periods which straddle 6 April 2020 will be introduced. These are likely to result in additional work to meet the filing requirements of the change in basis of taxation from income tax to corporation tax.

This note only discusses the changes for companies within the NRL regime which come into effect from 6 April 2020. For information on any of the previous rule changes, including those from 1 April 2019 regarding capital disposals, please contact us, or refer to our previous articles in this area.

Transitional rules

Under the existing income tax rules for NRLs, tax returns are filed based on the tax year (6 April – 5 April) whilst companies within corporation tax file tax returns based on their accounting periods. Given this disparity, there are transitional rules which will apply for the accounting period straddling 5 April 2020.

The transitional rules deem the trade to cease on 5 April 2020 (for income tax purposes) and start on 6 April 2020 (for corporation tax purposes). Therefore, a self-assessment income tax return will need to be filed for the period to 5 April 2020 under the income tax rules, and a corporation tax return will need to be filed for the period between 6 April and the end of the company's accounting period. This will involve apportioning income and expenses between the relevant periods. There is also the requirement for the NRL companies to notify HMRC within 3 months of falling within the new regime (by 6 July 2020), although HMRC will be contacting many NRL companies directly about this.

Within the transitional rules there are provisions in relation to carried forward property business losses which have accumulated and also for any capital allowances pools. On the cessation of trade, both losses and capital allowances would normally be lost, however under the transitional rules these can be transferred from the income tax regime to the corporation tax regime.

Comparison in rules

The table below includes the most significant differences between the income tax NRL regime compared with the new rules taking effect from 6 April 2020. Given the expectation that the corporation tax rate will remain 19% for 2020 (was previously announced this would be reducing to 17%) there is not a significant difference in rates as a result of the change in regime from income tax to corporation tax.

	Existing rules (income tax)	New rules (Corporation tax)
Payment of tax	Income tax is payable on account with two instalments required, one by 31 January in the current tax year and the second by 31 July in the following tax year, each being 50% of the previous year's liability. A balancing payment is then due by 31 January following the end of the tax year.	Corporation tax is due for payment with reference to both the company's accounting period end date and size. Generally small & medium companies, with annual profits below £1.5million, are required to pay their corporation tax within 9 months and 1 day of the end of their accounting period, although the position can be different for groups of companies. Large companies are required to pay their tax liabilities by instalments (please contact us for more details of the timings). For most NRLs this will mean tax is payable later than under the income tax rules.
Filing requirements	NRLs are required to complete a paper copy of the non-resident company tax-return (SA700), due by 31 January following the end of the relevant tax year.	Under the corporation tax rules, NRLs will be required to file a corporation tax return (CT600) within 12 months of the end of the company's accounting period.
Admin	Currently the information required to support the income tax return does not need to be provided in a prescribed or electronic format.	The corporation tax returns and computations will need to be filed online in iXBRL format – in a machine compatible language. It is likely that full accounts will need to be filed alongside the return, and in some cases these accounts will need to be iXBRL 'tagged'.
Finance costs	Interest costs are deductible as property business expenses if they are wholly and exclusively in relation to the property business.	Interest expenses are deductible under the loan relationship rules, and can be offset against property income, subject to the transfer pricing rules and corporate interest restriction for large companies.

The issues in the table will impact most NRLs, however there are a number of Corporation Tax specific rules which will affect larger companies or groups, so if you have any further questions on this please let us know.

What this means for you?

Although the tax rates under the income tax rules and the corporation tax rules (20 and 19% respectively) are very similar, the administrative burden of dealing with these changes in 2020 and complying with the corporation tax regime may prove more costly due to the stricter compliance requirements in relation to the format of the accounts. Large companies who have very high finance costs or significant losses carried forwards may end up with taxable profits higher than they would have expected under the rules for income tax due to some corporation tax specific rules.

As the corporation tax return will need to be filed online, the NRL companies affected will in some cases need to prepare of a set of iXBRL tagged accounts. The exact form and details that need to be included in these accounts is yet to be confirmed, but the preparation of these accounts will be a further burden to affected companies as this is not required by the income tax rules.

Given the requirements to notify, and the need to apply transitional rules in the accounting period straddling the 5 April 2020, and annually producing a set of accounts to accompany the tax return, the new rules will almost certainly see additional work and costs involved.

If you require further details on any of the above points, or to discuss these rules with regards to your own circumstances, please get in touch with a member of the Business Tax team here at PEM.

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