



Advice for people living outside the UK: Personal ownership

If you buy a UK property, you should take advice on UK tax issues. The following is for guidance only.

Income tax

If you are considering renting out the property, the income, subject to various deductions, will be chargeable to UK income tax.

Allowable deductions include mortgage interest, property insurance, repairs and maintenance, as well as agent's fees, service charges and ground rents.

If you own the property as an individual, the amount of UK tax you pay depends on the level of your net rental income. For the 2018/19 tax year, the rates are:

- 20% on income of up to £46,350;
- 40% between £46,350 and £150,000;
- 45% on income above £150,000.

A tax-free personal allowance may be available, depending on your country of residence or nationality.

The default position is that your agent or tenant should deduct basic rate tax at 20% from the rent before paying the net amount over to you. This automatic deduction does not take account of all allowable expenses and does not apply if you register as a non-resident landlord.

When completing an annual tax return, you will be able to claim allowable expenses against gross rental income, as well as benefit from a cash-flow advantage as any tax due is usually not payable until the January following the end of the tax year in which the rental income arose.

We can assist with the completion and submission of your annual tax return and calculate any tax due.

Capital gains tax (CGT)

From 6 April 2015 CGT is payable on the sale of UK residential property owned by non-residents.

1. Property acquired before April 2015

If you acquired your property before April 2015, you can choose from three options when calculating the gain:

- *Default option: the acquisition cost will be replaced by the value of the property on 6 April 2015;*
- *Election option 1: the gain will be calculated over the whole period of ownership and then apportioned. The gain arising after 5 April 2015 will be taxable;*
- *Election option 2: the gain will be calculated over the whole period of ownership with no apportionment.*

To use either elect option 1 or 2, a specific election must be made; otherwise the default option will be used. Advice should be taken to help decide which option is most beneficial.

2. Property acquired after April 2015

The computation for property acquired after April 2015 is much simpler. The gain is calculated by deducting the original cost of the property (plus additions and acquisition costs) from the proceeds of sale (after selling costs).

Depending on the size of the gain and your taxable UK income for the year of disposal, the gain will be taxed at 18%, 28% or a combination of the two. Non-UK residents will be entitled to a tax-free annual exemption.

You will have to notify HMRC of the sale, provide details of the gain and pay over any tax due within 30 days of the sale unless you complete annual tax returns, in which case the payment of the tax can be deferred. However, you will still need to notify HMRC of the sale within 30 days of completion of the transaction.

The deferment of payment of capital gains tax is being withdrawn from April 2020.

3. Capital gains tax from April 2019

From April 2019, the NRCGT charge is being extended to include all UK real estate (not just residential property) as well as assets deriving at least 75% of their value from UK land.

Inheritance tax

On death, inheritance tax is payable on the net value of your assets in the UK irrespective of residence or domicile.

A 'nil rate band' (currently £325,000 per person) is available. Assets exceeding the nil rate band will be charged to inheritance tax at 40% unless covered by an exemption, such as gifts to a surviving spouse or to a UK charity.

In the case of a married couple leaving everything to each other, if the surviving spouse exemption applies there will be no inheritance tax on the first death. On the second death, it will be possible to deduct two nil rate bands i.e. £650,000, before any inheritance tax is payable.



Wills

As UK inheritance rules will apply to your assets in the UK, you should consider having a separate English Will to cover these assets.

By taking advice on this and making an English Will, there is often the opportunity either to limit or remove a potential tax liability.

Having an English Will enables you to appoint executors who are experienced in dealing with the administration of an estate in the UK.

Contact us

For more information, please contact a member of our specialist tax team.



Paul Fairbairn

Partner

T +44 (0)1892 506 350

E paul.fairbairn@crippspg.co.uk



Vikki Logan

Tax Manager

T +44 (0)1892 506 027

E vikki.logan@crippspg.co.uk

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Our private client department is one of the largest in the UK with more than 100 people supporting clients through every stage of their life from finding their first property to succession planning, powers of attorney and wills

We have a specialist team dedicated to residential investment into the UK through property and have been providing legal services to these international clients for more than 30 years.

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Cripps LLP

London
Tunbridge Wells
Kings Hill

T +44 (0)1892 515 121
F +44 (0)1892 544 878
E contact@crippspg.co.uk

www.crippspg.co.uk

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