



Significant changes from April 2017 in UK on tax on residential properties

TAXATION ON RESIDENTIAL PROPERTIES IN UK

We would like to take this opportunity to inform you of some significant changes in the taxation of residential properties in the United Kingdom (UK) which will become effective April 2017.

From 6th April 2017, the net value of UK residential property (after deducting certain borrowings) will be within the charge to inheritance tax (IHT) regardless of how the property is held. Therefore, residential property owned by a non-UK company will begin to be subject to IHT charges. Loans or loan guarantees made to enable the purchase of residential property will also be caught. In the UK, each individual has a "nil rate" IHT tax band of UKP 325,000, and on death all value above this will be taxed at 40%. The UK system works by reference to the deceased and not the recipient, and therefore the UKP 325,000 limit is based on the donor e.g. if a person makes a gift of UKP 125,000 to another, followed by a gift of UKP 300,000 to a third person a year later, the nil rate band is set against the whole of the first gift and the balance of UKP 200,000 is then set against the second gift with the effect that if the donor dies, the balance of the gift to the third person i.e. UKP 100,000 is the gift taxable on the third person.

In the case of trusts, IHT is payable at 6% on every tenth anniversary of the trust's creation. IHT is also payable on some trust distributions. The 6% charge applies to all discretionary trusts, and to "life interest" trusts created since April 2006. Life interest trusts created before that are not covered, because all of the assets in these are treated as being owned by the life tenant for IHT purposes.

Moreover, an income tax charge can arise on rent-free occupation of property, but generally, this is only applicable if the occupant is a UK tax resident.

Lastly, an annual "ATED" tax charge is payable on any residential property worth more than UKP 500,000 unless an exemption applies. Even then, an annual return is required to be filed. If you own residential properties in the UK and require any specific tax planning, kindly contact us so that we can put you in touch with the tax team at RSM UK who will be able to assist you.



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