

Property Income for non-UK Resident Companies Factsheet

Historically, non-UK residents (whether companies or individuals) were not subject to UK taxes on capital gains when they disposed of UK land and buildings, unless the property was used in a UK permanent establishment.

Non-UK residents were typically only subject, in the UK, to:

- income tax on rental income
- stamp taxes when property was acquired

However, the tax treatment has changed over recent years, such that there are now a number of tax implications for non UK resident corporates

Areas to think about

Gradual widening of scope of UK taxes

The UK government has been gradually widening the scope of taxes on UK land and buildings.

Since 2015, all non-UK residents have been subject to **UK Capital Gains Tax (CGT)** on disposals of UK residential property. Subject to certain exemptions, since 2013 the **Annual Tax on Enveloped Dwellings (ATED)** is charged on residential property which is held within a corporate vehicle.

April 2019 changes

From **6 April 2019**, all direct disposals of UK land and buildings (both residential and commercial) by a non-UK resident company are chargeable to corporation tax. Indirect disposals, of a **25%** or more interest in a "property-rich" company (ie a company which



derives **75%** or more of its value from UK land) are also subject to UK tax, subject to certain exemptions.

Generally, only the part of any gain which accrues after **6 April 2019** will be subject to UK tax (April 2015 if the property is residential). For this reason, it is advisable to keep any records which show the market value of properties owned at these dates.

April 2020 changes

From **6 April 2020**, non-UK resident companies will be also subject to UK corporation tax on UK property-related income (e.g. rental income, profits on loans related to the property business, etc.). Previously, such companies were liable to income tax on such income. Corporation tax is charged at **19%** (compared with the **20%** income tax rate). However, such companies will have to calculate their income based on UK corporation tax principles. For instance, this includes applying the Corporate Interest Restriction rules. Broadly, these rules can restrict a group's ability to deduct interest where this exceeds **£2 million per annum**

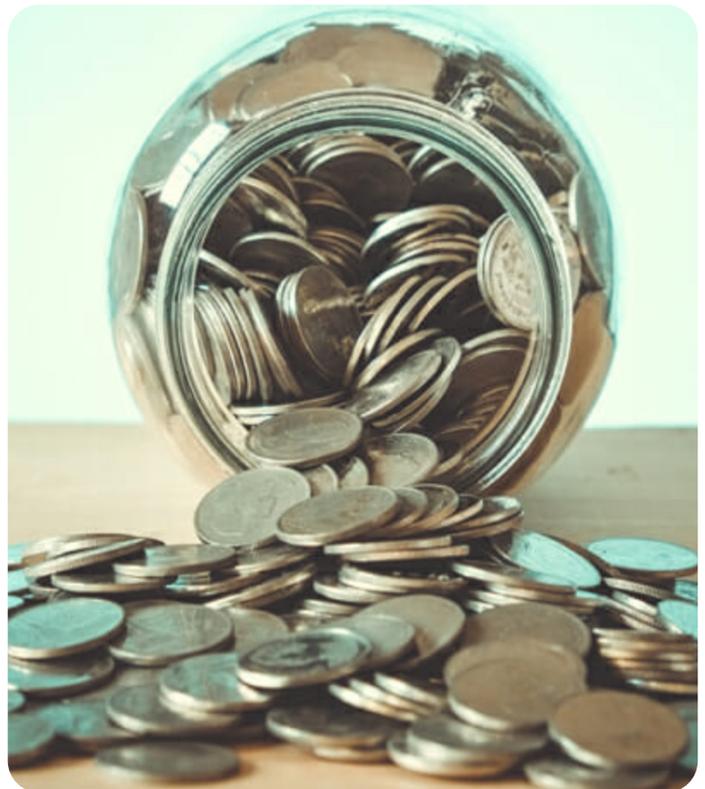
Affected companies also have to register for UK corporation tax and file annual corporation tax returns, which may be an unfamiliar process. For an accounting period which straddles **6 April 2020**, a UK income tax return to **5 April** will be needed followed by a UK corporation tax return to the end of the company's accounting period (based on the company's own financial year for which it makes up accounts). From April 2020 the corporation tax return must include both property income and any gains on disposals.

Corporation tax returns must be filed within 12 months of the company's year end. The company's accounts must also be submitted, in ixbrl-readable format. Generally, corporation tax is due nine months after the end of the company's year end. However,

depending on the level of annual profits and the number of companies in the worldwide group, companies may also be liable to pay their UK corporation tax earlier than this, by quarterly instalments

Double taxation treaties

We expect that in most cases UK tax will be payable on gains and income from UK property and it will be necessary to seek a credit (depending on the terms of the double taxation treaty) against any non-UK tax liability which arises on the same income or



gain. Each treaty will need to be considered on a case-by-case basis

Further information and support

These changes are likely to mean that many non-UK resident companies which own UK land and buildings will have new and unfamiliar tax liabilities and reporting obligations.

There may also be complexity in the transition from the previous tax treatment of UK property income, and existing property-holding structures may no longer be optimal.

Any non-UK resident companies which have not already prepared for these changes or registered for corporation tax with HM Revenue & Customs should now do so urgently.

To help you deal with these challenges, Claritas Tax are able to assist with all of the following:

- Advice on the scope of the new rules
- Planning for the transition to and effect of the new rules
- Moving to a new property-holding structure where the existing structure is no longer suitable
- Preparation and filing of UK Corporation Tax returns and ixbrl accounts

We hope that you find this briefing note helpful. However please note that it has been prepared for awareness purposes only and, as such, represents only a high-level and simplified summary of the rules.

It does not constitute advice and is not a substitute for taking proper advice tailored to your specific circumstances.

Meet the Claritas Team:

For more information or to discuss any of the issues raised in this factsheet, please contact one of our experts below:



Iain Wright,
Partner
E: iain.wright@claritastax.co.uk



Fiona Holloway,
Associate Partner
E: fiona.holloway@claritastax.co.uk



Guy Kendall
Associate Partner
E: guy.kendall@claritastax.co.uk