

Recent developments for UK real estate holding companies

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There have been a number of significant developments in the UK tax regime, which affect non-residents who hold UK real estate via a corporate structure. It is important to understand these changes and what they mean for non-UK residents. Below is a summary note for non-residents holding real estate in the UK through holding companies:

Annual tax on enveloped dwellings ('ATED')

In order to make corporate structures, through which non-resident individuals own high value residential property unappealing, AETD was introduced as an annual tax payable on properties valued at more than £500,000 (US\$ 650,000).

The annual tax amount increases with the increasing value of the property and tax returns must be filed to reflect this. Certain reliefs and exemptions are available where the property is let on a commercial basis.

With the Finance Act 2019, more favourable options for 'de-enveloping' and owning the property outright in an individual's personal name were introduced, without the payment of AETD on an annual basis.

The two new regimes for non-residents who hold UK investment property to consider are as follows:

Capital Gains Tax ('CGT')

This regime applies to non-resident individuals, in respect of their residential property gains on the sale of property in the UK. Individuals can benefit from:

1. basic rate of 18 per cent of the entire capital gains, if their overall annual income is below £50,000 (US\$ 65,000); and a
2. higher rate of 28 per cent of the entire capital gains, if their overall annual income is above the £50,000 (US\$ 65,000) threshold.

Corporate Tax

This regime applies to non-resident companies which are currently subject to corporate tax at a rate of 19 per cent on the disposal of their UK property.

From April 2020, any rental income generated by non-UK resident companies will also be subject to corporate tax, which is considerably lower than personal UK income tax rates and therefore more attractive.

Inheritance tax

UK Inheritance Tax is applicable on all chargeable estates above £325,000 (US\$ 425,000) at a rate of 40 per cent. Following tax changes in April 2017, the value of the shares of a property holding company will now be included in an individual's estate (on death) for inheritance tax purposes, irrespective of the fact that the individual is a non-domiciled individual. Previously, this was not the case and a non-domiciled individual would not be subject to inheritance tax on UK residential property held via an offshore company, as long as they were still non-UK domiciled at the time of their passing.

Overseas entities register

In 2021, it is anticipated that the UK will introduce a register to detail the ultimate beneficial owners of some property holding companies, which will be easily accessible to the public on the UK Companies House website. With this newly proposed register, onerous filing requirements will also be introduced, thus making it more undesirable to hold UK property through such structures.

This is a complex area of taxation and it is important to understand the impact of the recent developments. Al Tamimi & Company is the first law firm to establish an international tax practice focused on the Middle East region. We can offer advice and assistance, in collaboration with our expert lawyers in the UK.

Al Tamimi & Company's [Private Client Services team](#) regularly advises on succession planning. For further information, please contact [Dipali Maldonado \(d.maldonado@tamimi.com\)](mailto:d.maldonado@tamimi.com).