

CLIENT MEMO
**TAXATION OF HIGH VALUE UK RESIDENTIAL PROPERTY
NEW RULES EFFECTIVE APRIL, 2013**

The United Kingdom's 2012 Budget announced a new annual charge and capital gains tax on 'non-natural persons' (defined as companies, partnerships and collective investment schemes) owning UK residential properties worth more than £2 million. The detail of these changes was subsequently revealed in draft legislation published in December 2012 and January 2013, providing clarity on the main points of the new regime.

The new rules affect companies, partnerships and collective investment schemes owning UK residential property. Generally, they do not affect UK commercial property or residential property owned by trusts.

However, specific tax and legal advice should be taken in relation to both existing and proposed holding structures for UK property to ensure that the precise implications of a structure are clear.

Annual Residential Property Tax

From 1 April, 2013 residential properties valued in excess of £2 million which are owned by companies, partnerships or collective investment schemes will be subject to an annual charge at the following rates:

<i>Property Value</i>	<i>Annual Charge</i>
£2m – £5m	£15,000
£5m – £10m	£35,000
£10m – £20m	£70,000
£20m+	£140,000

Properties owned by trusts are not subject to the charge. Furthermore, there is a relief from the charge where property has been acquired by companies, partnerships or collective investment schemes for commercial development, trading or rental purposes. However, where any such property is used by a beneficial owner of the company or settlor of any overlying trust, or a person connected to them, the relief will not apply.

Capital Gains Tax

From 6 April, 2013 residential properties owned by companies, partnerships or collective investment schemes that are disposed of for £2 million or above will be subject to a capital gains tax of 28%. The tax will be payable on any gains made from any increase in the value of the property after 5 April, 2013. Although it is possible to rebase the value of the property up until this date, depending on the specific circumstances, there may be other capital gains tax consequences for gains accruing before 6 April, 2013. Tapered relief will be available on the capital gains tax for properties that just breach the £2 million threshold. For UK companies specifically, those that fall within the scope of the new regime will pay the capital gains tax instead of corporation tax.

The reliefs which apply to the annual charge also apply to the capital gains tax (see above).

Stamp Duty Land Tax

In addition to the annual charge and the capital gains tax, as previously announced in March 2012, a stamp duty of 15% applies to purchases of UK residential property for more than £2 million by 'non-natural persons'. The draft Finance Bill 2013 has clarified that the exemptions from this duty are the same as for the annual charge and the capital gains tax.

Recommended Steps

All existing structures where high value UK residential property is held by a 'non-natural person' should be reviewed. If you would like to discuss the implications of the new arrangements for UK properties owned by you or your clients, please contact your usual Trident Trust representative.

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