Additional tax charges for high value residential properties

Since 2013 a range of measures have been used to discourage the holding of residential property in the UK through companies and partnerships where one of the partners is a company. These corporate 'wrappers' or 'envelopes' have been used in some cases to reduce or avoid Stamp Duty Land Tax (SDLT).

Up to April 2014 these rules only applied to properties with values of over £2 million. However, the lower valuation limit, which determines when these rules apply, has reduced recently and will fall again on 1 April 2016 to £500,000. We are therefore writing to you to make you aware of these changes as they now impact on higher numbers of properties and may require you to complete a return of property interests to HMRC.

What are the measures?

There are three different additional taxes that could apply to higher value UK residential properties in corporate wrappers. In summary these are:

- Stamp Duty Land Tax (SDLT) is payable at 15% on the acquisition on or after 20 March 2014 of properties costing more than £500,000;
- an Annual Tax on Dwellings (ATED) applies at a fixed amount depending on value; and
- capital gains tax (CGT) at 28% is payable on a proportion of gains for the period that the property has been subject to ATED.

From 1 April 2015 the ATED and the CGT rates apply to residential properties valued at more than £1 million on 1 April 2012 (or on acquisition if later). This limit will reduce to £500,000 from 1 April 2016.

Note that a property potentially within the scope of ATED will be subject to a revised valuation every five years. So, for example, a dwelling potentially within the scope of ATED would need to be valued when acquired, and again on 1 April 2017.

The appendix to this letter sets out the tax rates which apply for the ATED charge from 1 April 2016.

Reliefs

There are reliefs available from the special SDLT charge and ATED. For example the rules may not apply to property rental businesses, property developers or farmhouses. However, for ATED, a relief must be claimed by submitting an ATED return each year.

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The appendix summarises some of the reliefs which are available.

Claiming relief

In order to claim relief from ATED the owner of the property will need to complete a 'relief declaration return' each year, stating which relief is being claimed. No details are required of the individual properties or the number of properties eligible.

Where a property is acquired in-year which also qualifies for the same type of relief, the existing return is treated as also having been made in respect of that property.

The forms have standard return periods which run from 1 April to 31 March each year. For the 2015/16 period the return should have been submitted by 1 October 2015. Going forward this filing date will be 30 April in the return period

Example

If you hold a property on 1 April 2016 which had a value of more than £500,000 on 1 April 2012, you must file your relief declaration return by 30 April 2016.

Failure to make a return to claim an exemption could result in penalties.

Paying the ATED

If the relief is not applicable then the property owner will be required to submit a return to pay the annual amount due. The chargeable period for the return is from 1 April to 31 March each year which may differ from the accounting year end. Again the return should be filed by 30 April in the return period. Where tax is due each property will require an ATED return form.

Please speak to us if you have any questions regarding the additional taxes due on residential properties and the filing requirements.

Appendix

Details of ATED chargeable amounts from 1 April 2016

Property value	Annual charge
More than £500,000 but not more than £1 million	£3,500
More than £1 million but not more than £2 million	£7,000
More than £2 million but not more than £5 million	£23,350
More than £5 million but not more than £10 million	£54,450
More than £10 million but not more than £20 million	£109,050
More than £20 million	£218,200

Examples of reliefs from the special rate of SDLT and the ATED

Property rental business: applies where the property interest is being exploited as a source of rents or other receipts in the course of a qualifying property rental business being carried on with a view to a profit by the person beneficially entitled to the interest or steps are being taken to ensure that it is so exploited without undue delay.

Property development: available if the interest has been acquired in the course of a property development trade being carried on by the beneficial owner and the interest is held exclusively for that purpose.

Property trading: available if the interest is held as stock in a business that consists of or includes the activities in the nature of buying and selling dwellings.

Farmhouses: available if the owner of the property is carrying on the trade of farming and the property is occupied by a farm worker or former long-serving farm worker. The farmhouse must form part of the land occupied for the purposes of the farming trade carried on on a commercial basis with a view to profit.