

## U.K. Tax Alert

November 22, 2013

### Capital Gains Tax on U.K. Property for Non-Residents

According to various reports, the Chancellor of the Exchequer is considering announcing in his Autumn Statement in December that capital gains tax (“CGT”) will be imposed on non-U.K. resident property sellers for the first time.

Britain’s taxation of foreign property owners is comparatively generous by international standards. While U.K. residents have to pay CGT when reselling property other than their main home, non-U.K. resident property owners are exempt for all their properties. Most other European countries charge CGT (to some extent) to non-resident property owners.

The proposal is that overseas owners of U.K. property would be liable to CGT at the rate of 28 percent. At present, a non-U.K. resident buyer who purchases an investment property or second home for £1 million and subsequently sold it for £5 million would not pay any CGT. Under the proposed changes, a £1.12 million CGT charge would arise (28 percent x £4 million).

Several new property taxes have already been introduced this year—most notably the taxes on enveloped dwellings held through corporate vehicles—but non-resident property owners still continue to be exempt from CGT on the sale of homes in the U.K. Some commentators view this as an ‘anomaly’ that is unsupportable in light of current property values in London and the South-East.

At present, there is no certainty that this proposal will be brought in or its precise mechanics if it were. Some of the important issues that will need to be resolved are:

- Whether the proposal will target commercial property as well as residential?
- When it will take effect from?
- Whether there will be re-basing of property value up until the take-effect date of any new legislation, so that gains that have accrued prior to implementation are effectively exempted?

However, there is structuring that can be undertaken by non-resident property owners that may protect them from this potential charge. Such planning is, however, only likely to be effective if it is entered into in advance of any announcement of the proposed CGT extension.

## Contact Information

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