

A photograph of a stone tower with a crenellated top, situated on a grassy hill. The sky is blue with scattered white clouds. The foreground is a mix of green grass and brownish vegetation. The image is framed by blue wavy borders at the top and bottom.

Non-Resident Landlords Scheme

SMP Accounting & Tax

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Overview

The Non-Resident Landlords Scheme is a scheme for dealing with the UK taxation of UK rental income of individuals, companies and trusts that are not resident in the UK.

Where a non-resident landlord is not registered and approved by HM Revenue & Customs (“HMRC”), the landlord will suffer UK withholding tax at a rate of 20% on any rents receivable in respect of any UK property.

Additionally, irrespective of whether the non-resident landlord is registered under the scheme, a UK tax return is technically still required to be submitted.

Landlords Not Registered

The 20% rate of withholding tax must be deducted from the gross rent by the letting agent (if there is one) or the tenant.

If no tax return is made, in practice the 20% withholding tax deduction can be treated as the final tax liability. This often means that more tax is payable than is due because the withholding tax is generally applied to gross rents (there are some limited exceptions where payments of allowable expenditure are made either directly by the tenant or by the letting agent).

Any return subsequently submitted will enable a refund of tax if applicable.

Registered Landlords

Landlords can apply to HMRC for approval to receive rents without the deduction of tax by the letting agent or tenant.

Approval will only be granted where the landlord :

- has ensured his tax affairs are up to date, or
- has never had any UK tax obligation, or
- does not expect to be liable to UK tax for the year in which the application is made.

Returns are required to be submitted annually on 31 January each year and will cover the year to 5 April preceding the deadline. The tax liability is payable in three stages. Two instalments (based on the prior years liability) are payable in equal amounts on 31 January in the year to which the return relates and 31 July following the end of the tax year. Any residual final liability is payable on 31 January following the end of the tax year, ie the same day as the filing deadline for the return.

In the event that the return is late, a £100 penalty will be levied (unless no tax liability falls due).

Furthermore, on late payment of the tax liability, interest will be charged. The current rate of late payment interest is 3%.

In the event that the tax liability remains unpaid 28 days or more after the due date a 5% surcharge will be applied to the outstanding tax liability.

Additional penalties and interest can be levied if the returns remain outstanding for a further 6 months.

Deadlines for Year Ended 5th April 2010

For the year ended 5th April 2010 the return is due by 31st January 2011. Instalment payments are due by 31 January 2010 and 31 July 2010 with any final balancing payment due on 31 January 2011.

If clients have entities with UK property they should ensure that appropriate returns are filed and tax paid prior to 31st January 2011.

Summary

It is important that a non-resident landlord owning UK property meets its fiscal obligations in the UK, otherwise the cost to the UK taxpayer in terms of tax, penalties and interest can be considerable.

SMP Accounting & Tax Ltd has one of the largest dedicated tax teams on the Isle of Man. The senior members of our tax staff are experienced former employees of the Big 4 and mid-tier accountancy firms. Our tax staff have many years experience of UK and offshore tax matters and can provide high level tax advice to clients with complex tax affairs.

If your clients have entities that own UK property which are registered, or which you think should be registered, under the Non-Resident Landlords Scheme, please feel free to contact us to discuss the UK tax obligations. Initial discussions are free of charge and we are happy to agree fixed fees in advance of incurring any chargeable time for preparing and submitting the necessary returns to HMRC.

If you have any queries regarding the Non-Resident Landlords Scheme please do not hesitate to contact:

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