HM Revenue
& Customs

Changes to the taxation of high value UK residential property held by certain non-natural persons

Who is likely to be affected?

Companies, partnerships with company members and collective investment schemes (collectively referred to as non-natural persons (NNPs)) which purchase, own or dispose of residential property in the UK worth over £500,000 and up to £2 million.

General description of the measure

An extension to the package of taxes that affect residential properties held by NNPs, other than genuine commercial businesses and other limited categories, to properties worth more than £500,000 up to £2 million.

These taxes are:

- stamp duty land tax (SDLT) at 15 per cent on acquisition of a residential property;
- an annual tax on enveloped dwellings (ATED); and
- capital gains tax (CGT) at 28 per cent on any gain on disposal.

Policy objective

This measure is to tackle tax avoidance and to ensure that those wrapping residential property in corporate and other ‘envelopes’ and not using them for a commercial purpose, such as renting them out, pay a fair share of tax.

Background to the measure

This measure was announced in Budget 2014. The Government will consult on possible options to simplify the administration of ATED, in particular for property businesses eligible for reliefs.

Detailed proposal

Operative date

The extension to the 15 per cent rate of SDLT will take effect for transactions where the effective date (normally the date of completion) is on or after 20 March 2014. Transitional provisions will ensure that, in the great majority of cases, the existing threshold will continue to apply in respect of contracts entered into before 20 March 2014 but completed on or after that date.

The new band for ATED applying to residential properties worth more than £1 million and not more than £2 million, with an annual charge of £7,000, will apply from 1 April 2015. In the first year returns applicable to this band will not be required until 1 October 2015 with payment required by 31 October 2015.

An additional band for ATED applying to residential properties worth more than £500,000 and not more than £1 million, with an annual charge of £3,500, will apply from 1 April 2016.

All corporate and other ‘envelopes’ affected by the new ATED band will also be subject to CGT on disposal of the properties held, at a rate of 28 per cent. The extension to the ATED-related CGT charge will take effect from 6 April 2015 for properties worth more than £1 million and not more than £2 million. The charge will apply only to that part of the gain that is accrued on or after that date. The extension to the ATED-related CGT charge will take effect from 6 April 2016 for properties worth more than £500,000 and not more than £1 million. The charge will apply only to that part of the gain that is accrued on or after that date. The balance of any gain will continue to be treated as at present. Legislation on the CGT elements of this measure will be introduced in Finance Bill 2015.

Current law

Schedule 4A Finance Act (FA) 2003 provides for a higher rate SDLT charge of 15 per cent for acquisitions of a 'higher threshold interest' by a 'non-natural person' (NNP) – that is, by a company, a partnership which includes a company as a partner or a collective investment scheme. A higher threshold interest is an interest in a single dwelling for which chargeable consideration of more than £2 million is given (or one of a number of interests in a single dwelling acquired in linked transactions, the aggregate chargeable consideration for which exceeds £2 million).

Section 94 FA 2013 gives rise to the charge of ATED in respect of a chargeable interest held by a non-natural person.

Section 99 FA 2013 details the amount chargeable by reference to various bands into which a dwelling falls based on prescribed valuation dates.

Proposed revisions

Legislation will be introduced in Finance Bill 2014 to:

- amend Schedule 4A FA 2003 so that a higher threshold interest for SDLT is an interest (or interests) in a single dwelling for which chargeable consideration of more than £500,000 is given; and

- amend sections 94 and 99 FA 2013 to introduce a new ATED banding for dwellings valued at more than £500,000 and not more than £1 million and at more than £1 million and not more than £2 million at the prescribed valuation dates which will remain unchanged.

For ATED purposes supplementary provisions will be required for the period 1 April 2015 to 31 March 2016 to accommodate transitional rules for the first period to which the new band of more than £1 million and not more than £2 million applies. The transitional rules will provide for a filing date of 1 October 2015 and a payment date of 31 October 2015.

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19
	+35	+70	+90	+80	+90
	These figures are set out in Table 2.1 of Budget 2014 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside the Budget.				
Economic impact	The measure is not expected to have any significant economic impacts.				
Impact on individuals and households	Individuals who are the beneficial owners of companies/properties subject to ATED will be directly affected by the charge. Approximately 12,000 individuals are estimated to be indirectly affected by this measure through their interests in NNPs that purchase UK residential property, such as companies, partnerships including company members, and collective investment schemes.				

	For ATED purposes, these bodies will need to value their residential property every five years, complete an annual return and pay the correct amount of ATED.
Equalities impacts	These changes are not expected to have an impact on any protected equality group.
Impact on business including civil society organisations	Businesses purchasing residential property costing between £500,000 and £2 million are already within the scope of SDLT, and the 15 per cent higher rate will be administered through the current SDLT regime. The SDLT measure should therefore give rise to negligible additional administrative burdens. Unincorporated businesses will be unaffected by this measure and will have no self assessment requirement. Most corporate businesses do not buy, hold or sell residential property worth over £500,000 and will be similarly unaffected. An estimated 8,000 corporate businesses that do buy or hold residential properties worth more than £500,000 will be able to claim relief against the charges, but most will incur an additional administrative burden through having to file a return within the prescribed time limits, or through amending a return. For ATED purposes they will not be required to accurately value residential properties eligible for relief. The Government will consult on possible options to simplify the administration of ATED, especially for property businesses eligible for reliefs. The measure should not significantly impact on charities as these are exempt under the current legislation. Estimates of compliance costs are shown in the table below, including an estimate of total costs for a five year period at present value.

	Cost	**Time Period (yrs)**
Compliance Costs		
One-off Costs	Negligible	N/A
Average Annual Costs	£2.5m	5 years
Total Costs (PV)	£11.2m	N/A
Compliance Benefits		
One-off Benefit	N/A	N/A
Average Annual Benefit	N/A	N/A
Total Benefit (PV)	N/A	N/A
Net Benefit (NPV)	-£11.2m	N/A
Impact on Administrative Burden (included in Net Benefit)		
Increase	**Decrease**	**Net Impact**
£0.3m	£0m	£0.3m

Operational impact (£m) (HMRC or other)	The change to the SDLT regime will not require changes to HMRC systems and any additional compliance work arising will be resourced according to risk. Processing additional ATED returns will require IT systems changes and additional staff resource. Additional compliance work will be resourced according to risk.
Other impacts	Other impacts have been considered and none have been identified.

Monitoring and evaluation

The measure will be monitored and assessed through information collected from tax returns.

Further advice

If you have any questions about these changes, please contact the HMRC Stamp Taxes Helpline on 0300 200 3510 (email: stamptaxes.budget&financebill@hmrc.gsi.gov.uk).