

## **RESPONSE: CONSULTATION ON IMPLEMENTING A CAPITAL GAINS TAX CHARGE ON NON-RESIDENTS**

### **Summary**

The proposal as it stands will impact non- resident property owners who do not have an investment property but have been unable to sell their UK property during a depressed housing market.

Adding another financial cost (the capital gains tax) to such owners will result in

1. Lost UK income tax on housing rentals
2. Owners selling properties and consequently depressing the housing market and the UK economic recovery
3. No additional capital gains tax revenue, as owners will sell before or when this is introduced.

By exempting such owners and capping this exemption, items 1 and 2 will not occur.

### **Background**

The taxation of future capital gains on residential property for non UK residents is an understandable measure for the UK government to both raise money and be seen to address the apparent inequity in which non residents appear to get favourable tax treatment over residents on investment properties.

### **Consequence**

In addition to targeting non- residents who own residential property as an investment, this measure will also tax former UK residents, such as families who have moved overseas, on their family home, which is not an investment.

Such properties are not investments because non- resident owners would currently be better off selling their UK home and purchasing in their new country, rather than being taxed on the rental income and having to pay to rent a property overseas from taxed income. Non-resident owners have been unable to sell during the depressed housing market since the GFC, as the proceeds from a forced sale would be insufficient to purchase a similar property in their new country of residence.

Adding a further financial burden, the capital gains tax, will force non- residents to sell their properties, remove the proceeds from the UK economy and depress the UK housing market and wider economy at a time when other government measures are aimed at encouraging growth and stimulus via the housing sector.

## **Solution**

The solution would be to exempt those residential property owners who became non-residents from a date around the beginning of the GFC, allowing them to sell their property in the future without paying capital gains tax, provided the property qualified as their principal private residence at the time of leaving the UK and the owners retain their non-resident status.

From a political perspective, this exemption could be capped at house sales of no more than £1m, to avoid any headlines that millionaires are not paying their fair taxes.

Such an exemption could then be reviewed and potentially withdrawn or the cap lowered, once the housing market and UK economy recovers and is robust enough to absorb the impact of resulting property sales.

13 May 2014