HM Revenue
& Customs

# Annual tax on enveloped dwellings: increased charges

### Who is likely to be affected?

Certain companies, partnerships with company members and collective investment schemes (collectively referred to as non-natural persons (NNPs)) which own residential property in the UK worth over £2 million, and which are not eligible for relief.

### General description of the measure

The annual charges for the annual tax on enveloped dwellings (ATED) will be increased by 50 per cent above inflation (Consumer Prices Index (CPI)) so that the new charges are:

| Property value | Annual charge in 2015-16 |
|---|---|
| £2m-£5m | £23,350 |
| £5m-£10m | £54,450 |
| £10m-£20m | £109,050 |
| £20m+ | £218,200 |

### Policy objective

The measure ensures that NNPs holding residential property in corporate and other ‘envelopes’ and not using them for a commercial purpose pay a fair share of tax. This improves the fairness of the way property is taxed.

### Background to the measure

This measure was announced at Autumn Statement 2014.

## Detailed proposal

### Operative date

The new charges will apply from 1 April 2015.

### Current law

Section 94 of Finance Act (FA) 2013 gives rise to ATED charges in respect of a chargeable interest (the property) held by a NNP.

Section 99 FA 2013 details the amount chargeable by reference to various bands into which a property falls according to its value on a particular date.

Section 101 requires the charge to be increased annually by reference to the previous September CPI.

### Proposed revisions

Legislation will be introduced in Finance Bill 2015 amending FA 2013 increasing the amount of charge for 2014-15 to those set out above. These revised charges take into account the annual CPI increase.

## Summary of impacts

| | | | | | | |
|---|---|---|---|---|---|---|
| **Exchequer impact (£m)** | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
| | +10 | +95 | +50 | +45 | +90 | +140 |
| | These figures are set out in Table 2.1 of Autumn Statement 2014 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Autumn Statement 2014. | | | | | |
| **Economic impact** | The measure is not expected to have any significant economic impacts. | | | | | |
| **Impact on individuals, households and families** | Individuals are not directly affected, as ATED charges apply only to NNPs. Approximately 4000 individuals are estimated to be indirectly affected through their interests in NNPs that purchase high value UK residential property, such as companies, partnerships including company members, and collective investment schemes.<br>The measure is not expected to impact on family formation, stability or breakdown. | | | | | |
| **Equalities impacts** | The impact of these changes will reflect the demographic composition of owners of high value enveloped property.<br>This measure is not expected to have an impact on any of the legally protected equality groups. | | | | | |
| **Impact on business including civil society organisations** | 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 £2 million and will be similarly unaffected.<br>Genuine businesses undertaking normal commercial transactions will be able to claim relief against the charges, so should not be impacted by this measure.<br>The measure should not significantly impact on charities as these are exempt under the current legislation. | | | | | |
| **Operational impact (£m) (HMRC or other)** | Some minor changes will be required to HM Revenue & Customs (HMRC) systems. HMRC may see an increase in ATED-related capital gains tax returns where taxpayers decide to take the property out of the corporate envelope.<br>Any additional compliance work arising will be resourced according to risk.<br>Overall, this measure is unlikely to have any significant operational impacts. | | | | | |
| **Other impacts** | Other impacts have been considered and none have been identified. | | | | | |

## Monitoring and evaluation

The measure will be monitored and assessed through existing data-gathering systems and information collected from tax returns. It will be published as Official Statistics.

## Further advice

If you have any questions about these changes, please contact the HMRC Helpline on 0300 200 3510 (email: ated.technicalqueries@hmrc.gsi.gov.uk).

**1 Annual tax on enveloped dwellings: annual chargeable amount**

(1) In section 99 of FA 2013 (amount of tax chargeable), in the table in subsection (4), for the last four entries substitute—

| | |
|---|---|
| "£23,350 | More than £2 million but not more than £5 million. |
| £54,450 | More than £5 million but not more than £10 million. |
| £109,050 | More than £10 million but not more than £20 million. |
| £218,200 | More than £20 million." |

(2) The amendment made by subsection (1) has effect for the chargeable period beginning on 1 April 2015 and, subject to section 101 of FA 2013, for subsequent chargeable periods.

(3) Section 101(1) of FA 2013 does not apply in relation to the chargeable period beginning on 1 April 2015.

(4) Accordingly, the Treasury is not required to make an order under section 101(5) of FA 2013 in respect of that period.

## EXPLANATORY NOTE

## ANNUAL TAX ON ENVELOPED DWELLING: ANNUAL CHARGEABLE AMOUNT

## SUMMARY

1. Clause [X] increases annual tax charges for the Annual Tax on Enveloped Dwellings for the chargeable period 1 April 2015 to 31 March 2016 over and above the normal annual Consumer Prices Index increase.

## DETAILS OF THE CLAUSE

2. Subsection 1 provides for an amendment to section 99 of Finance Act 2013 (amount of tax chargeable) and sets revised amounts for properties valued at more than £2 million as follows:

| **Annual Chargeable Amount for 2015/16** | **Taxable Value of the Interest** |
|---|---|
| £23,350 | More than £2 million but not more than £5 million. |
| £54,450 | More than £5 million but not more than £10 million. |
| £109,050 | More than £10 million but not more than £20 million. |
| £218,200 | More than £20 million. |

3. Subsection 2 brings this annual increase into effect for the chargeable period beginning 1 April 2015.

4. Subsections 3 and 4 dis-apply the requirement to increase the charges by the September 2014 Consumer Prices Index and to publish an Order stating the revised amounts. Indexation will be reapplied to the annual charges for the chargeable period beginning 1 April 2016 for properties valued at more than £2 million.

## BACKGROUND NOTE

5. The Annual Tax on Enveloped Dwellings is an annual tax payable by companies, partnerships with a corporate member and collective investment vehicles which own UK residential property valued at more than £2 million.

6. Most residential properties are owned directly by individuals. But in some cases they may be owned by a company, partnership with a corporate member or other collective investment vehicle. In these circumstances the property is said to be 'enveloped' because the ownership sits within a corporate 'wrapper' or 'envelope'.

7. Budget 2014 announced a reduction in the £2 million entry threshold to £500,000 to be phased in over 2 years. From 1 April 2015 a new band will come into effect for properties with a value greater than £1 million but not more than £2 million with an annual charge of £7,000. From 1 April 2016 a further new band will come into effect for properties valued at more than £500,000 but not more than £1 million.

8. The ATED chargeable period runs from 1 April to 31 March. The amount of tax charged is based on the value of the property on a particular date. The annual chargeable amounts are subject to indexation by reference to the previous September Consumer Prices Index (CPI). Parliament can over-ride the normal indexation by provision in the Finance Bill.

9. This clause increases the annual charge for the chargeable period 1 April 2015 to 31 March above normal September 2014 CPI increase for properties valued at more than £2 million. The new bands to be introduced with effect from 1 April 2015 and 1 April 2016 will not be affected by this change.

10. This measure is to ensure that those wrapping residential property in corporate and other 'envelopes' and not using them for a commercial purpose, pay a fair share of tax.

11. If you have any questions about this change, or comments on the legislation, please contact Philippa Staples on 03000 585508 (email: ated.technicalqueries@hmrc.gsi.gov.uk).