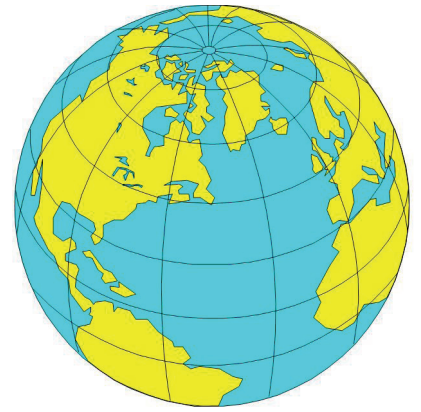


A Brief Guide to Tax for Overseas Landlords



This leaflet is a brief tax guide to describe how rents and tax are handled in the situation where the landlord is resident overseas. It does not however attempt to cover the wider aspects of personal taxation. If you are unsure which forms you need or how to fill them in, then you are advised to seek further advice from the information sources given at the end of this leaflet.

Will I need to pay tax?

All owners of property in the UK are required to pay tax on their letting income unless the income after allowable expenses is less than the individual's personal allowances. However, special rules apply to the UK rental income of non-resident landlords or landlords who live abroad (usually for more than a six month period).

Non-Resident Landlord [NRL] Scheme

The NRL scheme operates for rental income paid on or after 6 April 1996 and replaces the old rules under Taxes Management Act 1970. If you want information about the earlier scheme, ask your Tax Office.

If you let your property through an agent then the agent must operate the scheme and deduct tax from your rental income, unless they receive written notification to the contrary. In simple terms, the agent will either :

- ◆ If authorised by the Revenue, pay the rental income to their non-resident client GROSS, or
- ◆ Deduct tax at the basic rate on net income subject to certain allowable expenses and deductions.

Agents who have to operate the NRL scheme must register with the Personal Tax International (PTI)

If your tenant pays the rent directly into your bank account they must also operate the NRL scheme and deduct tax, unless the rent is less than £100 per week or they receive written notification to the contrary from the HM Revenue and Custom's (HMRC) Centre for Non-residents (see below).

Administration

The NRL scheme is operated by the HMRC's PTI. Non-resident landlords can apply to the PTI for approval to receive their rental income gross or with no tax deducted ('approval'). If the application is successful, the PTI will issue a notice and the agent will not be required to deduct tax. Landlords with poor tax histories may be refused approval and, in these cases, agents will be obliged to continue to withhold tax at the current basic rate on the net rental income. It is important to inform the HMRC if your tax situation changes (e.g. if you return to live in the UK) or if your letting agent changes.

How do I obtain approval to receive rental income gross?

An approval will allow you to receive all rental income due without deductions to cover tax liabilities. The forms are available from PTI by phone or directly from their web site at www.hmrc.gov.uk or your letting agent.

You can apply for approval if:

- ◆ your UK tax affairs are up-to-date
- ◆ you have never had any UK tax obligations or
- ◆ you do not expect to be liable to UK tax

Many people are entitled to set personal allowances against their income. If your UK income after allowable expenses is less than your personal allowances, then you will not be liable for tax.

Landlords and agents will be notified simultaneously of decisions to grant or withdraw approval. Approvals can be cancelled by HMRC if returns are filed late or tax is not paid on time.

New landlords

Where a non-resident landlord qualifies for approval to receive rental income gross, the landlord should apply for approval as soon as possible. Only tax deductions made in a particular quarter can be refunded by the agent.

What happens if a landlord has no approval?

Your agent will be required to withhold and pay the tax due on your behalf if you are non-resident and if approval to receive gross rental income has not been received within 30 days of each quarter. Quarters end on:

30th June

30th September

31st December

31st March

Tax will be deducted at the basic rate as a percentage of the quarterly rental income taking into account only cash received and cash paid by the agent. Your agent will issue you with Certificates of tax paid which you should include with your tax return. At the end of the tax year, you should still declare your letting income on your tax return in the normal way and you can reclaim payment of any overpaid tax.

How is the tax calculated?

If required, the agent will calculate the tax each quarter for each non-resident landlord. The tax will be calculated at the basic rate on property income received in the quarter less allowable expenses.

Example:	Rental Income (for the quarter)	£ 1800
	Less: Allowable Expenses	£ 300
	Net Rent	<u>£ 1500</u>
	Tax Retained @ 20% :	£ 300

Allowable expenses are those paid by the agent in the respective quarter. Expenses are allowable if they are incurred wholly and exclusively for the purposes of the rental of the property, and they are not of a capital nature. Thus, for example, any repairs to the property, water rates, insurance, management fees or other professional fees are allowable. However, letting agents cannot deduct expenses paid by the landlord nor any capital or personal allowances.

Non-resident landlords

The scheme applies to the UK rental income of persons whose usual place of abode is outside the UK (non-resident landlords). Landlords may be individuals, companies or trustees.

For tax purposes individuals will not be regarded as having a usual place of abode outside the UK, if they are temporarily living outside the UK for, say, six months or less.

Where property is let jointly by two or more landlords and one or more of them has a usual place of abode outside the UK, the scheme applies separately to the rental income of each non-resident

HM Armed Forces and other Crown Servants

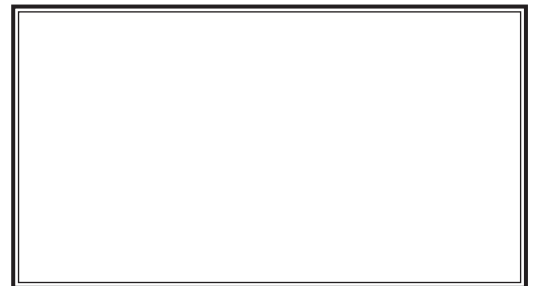
The Non-Resident Landlord Scheme applies to members of HM Armed Forces and other Crown Servants who have a usual place of abode outside the UK even though their employment duties, while performed overseas, are treated as performed in the UK for the purpose of charging their salaries to tax. These individuals were excluded from the old scheme under TMA 1970 for the taxation of rental income of non-resident landlords.

Where do you go for more information?

If you would like more information, you should try the following sources:

- ◆ Non-Resident Landlord Scheme: www.gov.uk/tax-uk-income-live-abroad/rent
- ◆ HMRC booklet "Non-resident Landlords - Guidance Notes for Letting Agents and Tenants"
- ◆ Inland Revenue leaflet "A Letting Agent's Guide to the NRL Scheme"
- ◆ Inland Revenue's PTI office - 0300 0516 644 (outside the UK +44 3000 516644) or the HMRC website: www.gov.uk/hmrc
- ◆ Letting Centre Publication: Letting Factsheet No. 26 "The Non-Resident Landlord Scheme" available at www.letlink.co.uk
- ◆ Your accountant or financial advisor
- ◆ Your letting agent
- ◆ Citizens Advice Bureau

Agent's Stamp



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N.B. This summary is intended to assist landlords and letting agents to understand the effects of the tax regulations. It is not an authoritative interpretation - this is a matter for the courts. For more details, you should refer to the text of the regulations themselves.



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