

A Brief Guide to..... Tax for Non-Resident Landlords

Rental income from property situated in the UK always falls within the scope of UK tax, regardless of the owner's residency status.

HMRC have had difficulty in the past in persuading taxpayers who live abroad to pay their UK tax, therefore the Non-resident landlord (NRL) scheme was set up to ensure HMRC received basic rate tax in respect of the UK rental income of those taxpayers whose 'usual place of abode' is outside the UK.

Usual place of abode

It is the usual place of abode and not non-residence that determines whether the NRL scheme applies. HMRC usually regard a period of absence of 6 months or more as an indication that the taxpayer has a usual place of abode outside the UK. It is therefore possible for a taxpayer to be resident in the UK under the statutory residence test, yet fall within the NRL scheme.

If the landlord is a company or a trustee then the usual rules regarding determining the usual place of abode apply. Please contact one of our specialists for further information.

Jointly owned property

If a property is jointly owned and one or more owners has a usual place of abode outside the UK, then the share of rental income attributable to those owners will fall within the scope of the NRL scheme.

Who collects the tax?

If a landlord falls within the NRL scheme and the tenant pays more than £100 per week in rent, then the tenant should register with HMRC and deduct basic rate tax (20%) from the rent. If the rent is under £100 per week, then tenants do not have to operate the scheme unless told to do so by HMRC.

If the letting is managed by an agent, then the agent will deduct tax on the tenant's behalf. Letting agents must operate the NRL scheme regardless of how much rent changes hands.

However, if the non-resident landlord prefers, an application can be made to HMRC to receive the rental income gross.

How do I apply to receive UK rental income without deduction of tax?

The relevant non-resident landlord form should be completed and submitted to HMRC, either online or by post. Non-resident landlords can apply to receive their rent without the deduction of tax by completing:

- form NRL1 - for individuals
- form NRL2 - for companies
- form NRL3 - for trustees

Whiting and Partners can complete and submit these forms on your behalf; please contact us if you require advice or assistance.

HMRC will accept an application if the landlord agrees to comply with all UK tax obligations going forward. Before authorising the application, HMRC will look into the landlord's historical record for filing returns and paying tax on time; previous failure to comply could result in the application being denied.

What happens if the gross payment application is denied?

If HMRC do not accept the application, 20% of the net profit must be withheld each calendar quarter and sent to HMRC within 30 days, along with a quarterly return.

- Net profit definition: gross rents received by the agent less expenses paid in the quarter by, or under direction of, the letting agent, which the agent is reasonably satisfied are allowable expenses of the property business for tax purposes.

Letting agents cannot deduct expenses paid personally by the landlord. In addition, the agent cannot take into consideration the personal allowance, even if this is the only source of UK income for the landlord.

For the purposes of the NRL scheme, the year runs from 1 April to 31 March. At the end of each year the tenant or agent withholding the tax must complete an annual return and submit this to HMRC on or before 5 July.

The tenant/agent will also provide the landlord with a certificate detailing the tax withheld (by 5 July following the end of the year); this certificate should then be used to complete the self-assessment tax return.

The tax paid will be deducted from the overall tax liability for the year, to calculate the balancing liability/refund due for payment by 31 January following the end of the tax year in question.

What happens if HMRC approve the application to receive rent gross?

If HMRC approve the application, they will write to:

- The landlord to advise them that the application has been successful.
AND
- The tenant/agent to authorise them to pay the rent gross.

Any tax deductions made in that quarter should be refunded by the agent if they receive notification that an application to receive rent gross has been accepted.

Selling the Property

You will need to consider the capital gains tax position on the sale of the property and may need to complete a non-resident capital gains tax return. Please refer to our brief guide Capital Gains tax on UK Residential Property owned by Non-Residents. For further information, advice and guidance please contact one of our specialists in the property investors group:

Find out more

For further information, advice and guidance please contact one of our specialists:

Barbara Nicholas - Partner
Telephone 01353 662 595
Email barbaranicholas@whitingandpartners.co.uk

Philip Peters - Partner
Telephone 01284 752 313
Email philippeters@whitingandpartners.co.uk

This is a general illustrative guide only, and individual professional advice should be obtained on specific issues. The information is believed to be correct at the time of publication, but may alter.

Bury St Edmunds Office

Greenwood House, Greenwood Court
Skyliner Way
Bury St Edmunds
Suffolk
IP31 7GY
Telephone: (01284) 752313
E-mail: bury@whitingandpartners.co.uk

Chatteris Office

Suite L22, South Fens Business Centre
Fenton Way
Chatteris
Cambridgeshire
PE16 6TT
Telephone: (01354) 694111
E-mail: chatteris@whitingandpartners.co.uk

Ely Office

George Court
Bartholomew's Walk
Ely
Cambridgeshire
CB7 4JW
Telephone: (01353) 662595
E-mail: ely@whitingandpartners.co.uk

Godmanchester Office

The Old Bakery,
49 Post Street,
Godmanchester,
Huntingdon,
Cambridgeshire,
PE29 2AQ
Telephone: (01480) 455575
E-mail: godmanchester@whitingandpartners.co.uk

King's Lynn Office

Norfolk House
Hamlin Way
Kings Lynn
Norfolk
PE30 4NG
Telephone: (01553) 774745
E-mail: kingslynn@whitingandpartners.co.uk

March Office

The Old School House
Dartford Road
March
Cambridgeshire
PE15 8AE
Telephone: (01354) 652304
E-mail: march@whitingandpartners.co.uk

Mildenhall Office

Willow House
46 St Andrews Street
Mildenhall
Suffolk
IP28 7HB
Telephone: (01638) 712267
E-mail: mildenhall@whitingandpartners.co.uk

Peterborough Office

Eco Innovation Centre
Peterscourt
City Road
Peterborough
PE1 1SA
Telephone: (01733) 564082
E-mail: peterborough@whitingandpartners.co.uk

Ramsey Office

108 High Street
Ramsey
Huntingdon
Cambridgeshire
PE26 1BS
Telephone: (01487) 813731
E-mail: ramsey@whitingandpartners.co.uk

St Ives Office

Raleigh House
14C Compass Point Business Park
St Ives
Cambridgeshire
PE27 5JL
Telephone: (01480) 468931
E-mail: stives@whitingandpartners.co.uk

St Neots Office

14 Eaton Court Road,
Colmworth Business Park,
Eaton Socon,
St Neots,
Cambridgeshire,
PE19 8ER
Telephone: (01480) 470755
E-mail: stneots@whitingandpartners.co.uk

Wisbech Office

12 & 13 The Crescent
Wisbech
Cambridgeshire
PE13 1EH
Telephone: (01945) 584113
E-mail: wisbech@whitingandpartners.co.uk