Recent changes in the UK

Do you own UK residential property? Are you considering a purchase of UK residential property? Are you an Irish national who is currently tax resident in the UK?

If you answered yes to any of these questions, you may need to be aware of some significant UK tax changes affecting both UK and non-UK residents.

1. Landlords of UK property

Mortgage interest – tax relief restriction

Currently, landlords of residential property can claim full tax relief for interest on loans to purchase or improve their let property. This gives tax relief on interest at 40% and/or 45% for landlords paying UK tax on rental income at the higher tax rates.

From April 2017, tax relief for interest will start to be restricted to the basic rate of income tax (20%). The restriction will be phased in over 3 years as follows:

- **UK Tax Year 2017/18** – full deduction for 75% of interest/finance costs, with the remaining 25% restricted to a basic rate tax deduction
- **UK Tax Year 2018/19** – 50% full deduction and 50% restricted to a basic rate tax deduction
- **UK Tax Year 2019/20** – 25% full deduction and 75% restricted to a basic rate tax deduction

From 6 April 2020 the full restriction will apply. The effect of this change will mean that for top rate taxpayers, tax relief for interest will be reduced by up to 55%!

Wear & tear allowance - Furnishings

Up to 6 April 2016 if you had furnished residential rental property in the UK, you could claim an allowance equal to 10% of your gross rental income to represent wear and tear on furniture and fittings.

Since 6 April 2016 the 10% wear and tear allowance has been replaced with a new relief. The new relief allows landlords of residential property to deduct the full costs incurred in replacing furnishings, appliances, carpets etc. against rental income in the year the costs are incurred.

Whether this is a positive change for landlords will depend on the level of rental income and the level of costs in replacing furnishings. For example, previously a landlord could claim a flat rate allowance each year equal to 10% of gross rents regardless of the amount spent on replacing fixtures and fittings. Now full relief is given for replacement costs in the year the costs are incurred.

It is a more favourable treatment than in Ireland, where tax relief for such expenditure is given evenly over an 8 year period.

We file UK tax returns for many clients, both Irish resident and non-Irish resident who own UK residential property. If you need any assistance with the filing of a UK return please do not hesitate to contact us.

2. Purchase of UK property - stamp duty

UK Stamp Duty – Residential Investment Property

Thinking of investing in UK residential property? If so make sure you take into account the UK stamp duty cost. The rates of UK stamp duty have increased significantly in the last few years and the top rate is now 15% for investors in UK residential property.

The stamp duty cost on a purchase of a GBP1m residential investment property is now GBP73,750. On a GBP2m property it is GBP213,750!

Compare that with Ireland where stamp duty on a EUR1m residential property is EUR10,000 and EUR30,000 on a EUR2m residential property.

The table below sets out the current stamp duty rates that apply on a purchase of a residential investment property in the UK :

Bands	Stamp duty rate
GBP	
On first 125,000	3%
next 125,000	5%
next 675,000	8%
next 575,000	13%
balance (over 1.5m)	15%

3. Non-UK nationals and the remittance basis

If you are an Irish (or other non UK) national living in the UK, you may be treated as not domiciled in the UK and therefore able to avail of the favourable remittance basis of taxation. Under the remittance basis, you are not liable to UK tax on any non UK income and gains unless you remit them to the UK.

From 6 April 2017, any individual who has been resident in the UK in 15 out of the last 20 years will automatically be treated as UK domiciled for all tax purposes and will no longer be able to avail of the remittance basis of taxation.

Nor can they rely on other favourable tax rules for non-domiciled individuals. For example, foreign and UK assets will be within the charge to UK inheritance tax (40%) after 15 years of UK tax residence (and cannot escape the inheritance tax net until 6 years of non-UK residence).

If you are in this category, you should be considering action prior to 5 April 2017 to minimise the impact of deemed domicile status. There are transitional rules which may allow you to separate offshore capital from income and bring that capital into the UK. You may also be allowed to "rebase" your assets at 6 April 2017 so that on a future sale, only gains from 6 April 2017 are taxed.

For any non-Irish nationals, Ireland remains a very favourable location from a tax perspective. We continue to have the remittance basis of taxation for non-domiciled individuals with no "deemed" domicile rules.

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