

Special factsheet for buyers living abroad: Buying residential property in the uk

By Alan Zeffertt

Foreign Ownership

Anyone living outside the UK is free to buy a UK property. Non-UK residents often wish to buy one as a home for themselves or their family, or as an investment.

If you live abroad, you can buy property in the UK either in your own name, or through a UK limited company or an offshore company. You will also benefit from a favourable tax structure.

Personal Ownership

If as a non-UK resident you intend to stay in the UK for a relatively short period of time, buying the property in your individual name may be the most cost effective way. This is usually done when buying in order to live in the property, rather than for investment purposes.

Capital Gains Tax

When the property is your main residence, you will be able to claim principal private residence relief if you make a profit (gain) when selling the property. But the tax relief may not be available if you sell after leaving the UK and then return before five complete tax years have elapsed.

Income Tax

If you rent out your property, the rent will be subject to income tax. If there is a mortgage in place, the mortgage repayments can be deducted from the rent, provided that the money borrowed is 'wholly and exclusively' incurred for the purposes of the property business.

Inheritance Tax

The property will be subject to inheritance tax if you are the owner at the time of your death. There are various ways of minimising the tax burden, including owning the property in joint names with a spouse, and mortgaging to reduce the equity in the property in order to use up the allowance (currently £285,000).

Ownership through an Offshore Company
This is often a more tax efficient way of ownership for non-UK domiciled clients. In order to avoid HM Revenue & Customs deciding that the company is deemed to be resident in the UK, the central management and control of the company should be undertaken overseas and not in the UK.

If the offshore company sells your property at a profit, it is unlikely to be liable for capital gains tax.

If the property is rented, the rental income is UK source and is, therefore, taxable under the Income Tax Rules. Since the offshore company is regarded as a non-UK resident landlord, your tenant will be obliged to withhold tax from rental payments. The company should apply to HM Revenue & Customs to receive the rent gross under the Non-UK Resident Landlord Rules.

Care should be taken if the property is used as living accommodation by someone connected with the company. That person could be viewed as an 'employee' of the company and liable to income tax on the benefit of living in the property.

With regard to inheritance tax, you would hold the shares in the offshore company. Provided you are not deemed to be domiciled in the UK – UK-domiciled is defined as having been resident in the UK for at least 17 of the last 20 years – the share should be excluded property and, therefore, would not attract inheritance tax on death.

Forward Planning

Before buying a property, you will need to consider the best structure for your property purchase, taking into account the points discussed here. Professional advice should be taken if you are contemplating purchasing a UK property or becoming resident in the UK, having previously lived overseas. Advice would also be needed on the effect of the structure in your country of residence and in the country of residence of any offshore company.

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