

HONG KONG TAX ALERT

ISSUE 7 | March 2017



Inheritance tax on UK residential property reaches non-residents

From 6 April 2017, UK inheritance tax (IHT) will extend to UK residential property held through certain non-UK structures - regardless of the domicile or residence status of the ultimate owner. Loans made to finance such property will also become subject to IHT in the lender's hands.

Summary

- From 6 April 2017, UK inheritance tax (IHT) will extend to UK residential property held through certain non-UK structures - regardless of the domicile or residence status of the ultimate owner. Loans made to finance such property will also become subject to IHT in the lender's hands.

On 6 April 2017, the latest in a series of changes to the taxation of UK residential property will come into effect.

Prior to April 2017, UK inheritance tax (IHT) did not extend to UK residential property owned by a non-UK domiciled individual held through a non-UK company. The changes taking effect in April will bring the value of the shares in such an offshore (non-UK) company into the scope of UK inheritance tax to the extent that they derive their value from the UK residential property.

This means anybody in Hong Kong (or elsewhere) holding residential property in the UK, even through a non-UK company, could be subject to UK inheritance tax of up to 40% on the value of that residential property.

Furthermore, a non-UK individual who has lent money or provided security for a loan to acquire, maintain or repair UK residential property may also become subject to UK inheritance tax if the loan is outstanding when they die.

For more information, please see the [update](#) produced by KPMG in UK.

Previous amendments impacting on non-resident investment in residential property in the UK

As a reminder of the other changes impacting UK residential property in recent years:

6 April 2015 - Capital gains tax extended to non-resident individuals

Non-UK residents became subject to capital gains tax on UK residential property, referred to as non-residents capital gains tax (or NRCGT).

This potentially impacts investors in UK residential property, and on UK expatriates if they sell property (including their home) while non-resident of UK.

For further information, please see the previous [publication](#) from KPMG in UK.

6 April 2013 - Annual tax on non-resident entities

ATED (Annual Tax on Enveloped Dwellings) rules were introduced to tax residential property in the UK held by a non-resident company, or other holding vehicle. This imposes an annual charge based on the value of the property. Depending on the bracket the property falls into, the charge is approximately 0.5% of the market value.

Initially, the threshold at which this tax starts to apply was set at properties with a value of GBP 2 million or higher. For the year to 31 March 2016, this was reduced to GBP 1 million. For the year to 31 March 2017, the threshold value for properties subject to ATED was further reduced to GBP 500,000.

A property may be relieved from ATED if it is rented to arm's length tenants.

For further information, please see the previous [publication](#) from KPMG in UK]

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