

# Briefing document

## Non-Resident Landlord Scheme

### Introduction

The Non-Resident Landlord (NRL) Scheme is a scheme for applying withholding tax to the UK rental income of persons whose usual place of abode is outside the UK. Such persons include individuals, companies and trustees who receive UK rental income and usually live or are based outside the UK.

Broadly speaking, a 20% withholding tax is due under the scheme and any additional tax or repayment is then dealt with through a tax return. NRLs should ensure that they are compliant with the scheme to ensure that they do not suffer unnecessary interest and penalties. It is possible to apply to receive rents gross.

While this note concerns tax on property income, a brief paragraph on the tax and reporting position on disposal of UK residential property is included below.

### How the NRL Scheme works

The responsibilities of a NRL depend upon whether the NRL is registered or unregistered under the Scheme.

#### Unregistered Landlords

If a NRL is not registered with HM Revenue & Customs (HMRC) under the NRL Scheme, they suffer withholding tax at the basic rate of income tax (currently 20%) in respect of any UK rental income received.

Any withholding tax due is deducted from rent by the letting agent or tenant and the tax needs to be paid over to HMRC within 30 days after the end of each calendar quarter. Tax is collected in the first instance by the letting agent, if there is one. If the NRL does not have a letting agent acting for them, and the rent is more than £100 per week, the tenant is responsible for deducting the tax. HMRC can issue a written notice requiring the tenant to deduct tax at source if the weekly rent is £100 or less.

In calculating the amount of rent that should suffer the withholding tax, the collecting agent or tenant may deduct allowable expenses that he or she has paid on the NRL's behalf, such as agent's fees and repairs. If NRLs have suffered additional expenses directly, they may claim relief for them via a tax return each year.

In addition to quarterly returns summarising the tax withheld for the quarter, the collecting agent or tenant must also complete an annual return for each financial year (ending 31 March), which must be submitted to HMRC by the 5 July following the end of the year. The collecting agent or tenant must also provide a certificate of tax deducted to the landlord by the same date (5 July following the end of the year).

#### Registered Landlords

It is possible for a NRL to apply to HMRC for approval to receive rents with no tax deducted.

HMRC will grant exemption from tax being deducted at source if they are satisfied with a NRL's ability to comply with UK tax obligations. NRLs can apply to receive rent with no tax deducted on the basis that either:

- Their UK tax affairs are up to date; or
- They have not had any UK tax obligations before they applied; or
- They do not expect to be liable to UK income tax for the year in which they apply; or
- They are not liable to pay UK tax because they have Sovereign Immunity from UK taxation (persons with Sovereign Immunity are generally foreign Heads of State, governments and government departments).

Once approval has been given, HMRC will notify the NRL advising that rents may be received gross. A corresponding notice will be sent to the letting agent or tenant named on the application, authorising him or her to pay rent to the person with no tax deducted. This gives an obvious cash flow advantage to the NRL, as rents are received gross, and any tax due is collected through the tax return process (see below).

Agents must complete an annual tax return where they collect rents on behalf of a landlord within the scope of the NRL scheme, even where HMRC have given approval for rents to be paid gross. Tenants do not need to complete an annual return, provided they have not been required to withhold tax during the year. Neither agents nor tenants need to provide the landlord with a certificate of tax deducted if no tax has been withheld.

### **Tax returns – the landlord**

A NRL who has received approval from HMRC to receive rents with no tax deducted is normally required to file an annual tax return. Tax returns are also required in some cases where tax has been deducted at source, such as where the tax deducted at source is less than the tax payment due. NRLs may also wish to file a tax return if expenses have been incurred which are deductible from taxable rental income but not for the purposes of calculating the tax to be withheld at source, as this may result in a repayment of tax.

### **Self-Assessment tax returns and tax payments**

Self-Assessment tax returns are relevant to persons who pay income tax on rental income. This includes individuals and trustees. Non-UK resident companies are within the scope of income tax on rental income received up to 5 April 2020; corporation tax applies from 6 April 2020 (see below).

NRLs within the scope of income tax who are required to file a Self-Assessment tax return must file the return and pay any tax due by 31 January following the end of the tax year (5 April). If HMRC do not issue a notice to file a tax return, the NRL must notify HMRC of chargeability by the 5 October following the end of the tax year.

The NRL may also be required to make two payments on account in respect of the following tax year's liability. If payable, each payment will be equal to 50% of the prior year's income tax liability and the payments will be due by 31 January in the tax year and 31 July following the tax year. Companies are not required to make payments on account in respect of 2020/21 if the company's only income is UK rental income, due to the transition to corporation tax. Payments on account must still be paid if the company has income tax to pay.

### **Non-UK resident companies brought within the scope of corporation tax**

Non-UK resident companies are within the scope of corporation tax (currently 19%) on UK source rental income from 6 April 2020. Transitional rules apply in relation to the move from income tax to corporation tax.

Companies within the scope of corporation tax must file Company Tax Returns, which are due 12 months after the end of the company's accounting period. Companies must notify chargeability to corporation tax within three months of the beginning of the accounting period in which they first become liable to pay corporation tax. HMRC state that companies that have a UK property business as at 5 April 2020 should automatically be registered for corporation tax and sent a Company Unique Taxpayer Reference (UTR). HMRC request that companies should contact them if they already have a Company UTR or do not receive a UTR by 30 June 2020.

Tax payment due dates vary depending on the size of the company.

### **Capital gains**

This note addresses the tax position of income. Different rules apply to the taxation of capital gains. Notably, non-UK resident individuals and trustees must file a tax return and, where relevant, pay a capital gains tax payment on account within **30 days of disposal** of UK land. UK residents realising a taxable gain on disposal of UK residential property are subject to the same 30 day time limit. Different rules apply to companies. Please contact us in good time if you are considering disposing of a property, so that we can assist with this point.

### **Find out more...**

This note reflects the law in force as at 16 April 2020 and draft legislation in Finance Bill 2019-21. Changes may be made before enactment of the Finance Bill. This note does not cover all aspects of this subject. To find out more about any aspect of the above, please discuss with your usual Deloitte contact. If you do not have a usual contact, please contact Michelle Robinson ([michellerobinson@deloitte.co.uk](mailto:michellerobinson@deloitte.co.uk)).

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