

Using a BVI company to purchase UK real estate

When a UK non-resident considers purchasing property in the UK, a number of issues need to be considered. These include:

1. Income Tax on rental income
2. Capital gains tax
3. Inheritance tax
4. Stamp Duty

The use of a BVI company to effect such a purchase can often be done in a favourable manner to improve the after tax position of the purchaser.

The BVI

The BVI is an overseas dependant territory forming part of the British Crown.

The use of a BVI company and occasionally a limited partnership are fairly common in this role.

Osiris has experience in the setting up of such structures for both individuals and more institutional investors, as well as managing the attendant relationships such as bankers and solicitors.

Income Tax on rental income

Non-resident companies such as BVI companies are taxable at a rate of 20% on their taxable profits, which is typically rental income less allowable expenditure such as interest on mortgages, costs on repairs, agents fees etc.

Companies typically register with HMRC as a non-resident landlord under the non-resident landlord's scheme, failing which the agent or tenant is required to withhold tax on the gross rent.

The BVI Company will then be obliged to file an annual tax return and pay the tax due on taxable profits. However, if the investment was made by means of a limited partnership, the partners will be taxable in their own right.

You should note that if a UK company had been used, it would have been liable for UK Corporation tax at 27% reducing by 1 % pa to 24% by the 2014 tax year. The small business tax rate is 20%. It follows that the use of a BVI company allows a similar rate to that paid by a small business company.

Capital Gains Tax (CGT)

Non UK residents are not subject to CGT on gains made from the sale of UK real estate. A BVI company selling UK property would therefore not be subject to UK CGT. However, if a UK property was so used then CGT would be payable at the applicable rate.

Inheritance Tax (IHT)

Non UK domiciled individuals only pay IHT on their UK assets. It follows that for a non resident there is an IHT saving on their death if UK property is owned via a BVI company.

Stamp Duty Land Tax

Stamp duty tax is payable at varying rates of up to 5% on the sale of UK property. However, if the property is owned by a BVI company then it is possible to see the shares in the company as opposed to the property itself to effect a saving. Care obviously needs to be exercised in such an event to do a proper due diligence into the affairs of the company.

Use of a partnership

The BVI has quite sophisticated partnership legislation. The use of a partnership would make sense where a number of parties are involved and tax transparency is required so that use can be made of credits against underlying taxes to avoid double tax in a home country.

Gearing

The use of appropriate gearing can also improve the effectiveness of the use of a BVI company; however, care needs to be taken to not have excessive gearing in terms of the UK's ideas on thin capitalisation, and to ensure that withholding tax is not payable on any interest costs paid to the BVI. These issues need to be addressed on a case by case basis.

Key Contact:

If you require advice or assistance in regard to any of the matters raised in this article, please contact your usual contact or

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