

Understanding the Annual Tax on Enveloped Dwellings (ATED)

This factsheet offers an overview of the Annual Tax on Enveloped Dwellings (ATED), designed as an informational tool for companies and similar structures holding UK residential property, as well as trustees of trusts with underlying companies holding such properties.

It provides key facts regarding what ATED is, how it applies, the tax implications, and other considerations. Given the complexities involved, we strongly recommend seeking tailored UK tax advice specific to your circumstances to ensure the best outcomes.

ATED Overview

Definition: ATED, is an annual tax on companies and other entities that own UK residential property levied on dwelling houses **valued over £500,000**.

Purpose: It was introduced to discourage ownership of UK residential property by a non-UK resident company (and certain other legal entities); often used in the past to purchase property and avoid paying Stamp Duty Land Tax and other taxes.

Tax Implications: It is an unusual tax in that although it is paid annually, the amount due (if tax is due) is an amount which depends on the **value of the property**, rather than one which depends on the amount of income or gains.

Why would a UK dwelling be owned by a Company?

- ▶ At one time, there were tax advantages to a UK house being owned by an overseas company, which ATED was introduced to counteract.
- ▶ Changes in legislation now mean that rental profits of such a company are subject to corporation tax.
- ▶ Gains on the disposal of the property are now subject to corporation tax.
- ▶ The value of the company is within the scope of UK inheritance tax, even if the shares are owned by an individual not domiciled in the UK for tax purposes.

Who pays ATED?

This tax applies annually where a UK dwelling house is owned typically by a company.

ATED primarily applies to dwelling houses where the person living there is also the owner of the overseas company that owns the property.

If the property is rented out commercially to an unconnected party, relief from the ATED charge is available.

The ATED is due from the company itself.

If the company doesn't have income, the shareholder usually must fund the cost of the ATED.



How is ATED calculated?

- ▶ The amount of ATED is determined by the value of the property.

- ▶ For the current year, the top rate, which applies to properties worth over £20 million, is £287,500.

- ▶ The key element of the calculation is the valuation of the property.

- ▶ When an appropriate valuation is available, the return is not complicated, allowing a short time for the return to be made.

- ▶ Companies are not required to obtain a new valuation each year.
 - They can use a valuation obtained on a statutory valuation date or when the property was acquired if later.
 - Properties must be revalued every five years.
 - The most recent valuation date was April 1, 2022.

- ▶ The tax is payable annually, with amounts depending on the property's value. The rates for the 2024-2025 tax year are as follows:
 - **£500,001 to £1,000,000:** £4,400
 - **£1,000,001 to £2,000,000:** £9,000
 - **£2,000,001 to £5,000,000:** £30,550
 - **£5,000,001 to £10,000,000:** £71,500
 - **£10,000,001 to £20,000,000:** £143,550
 - **More than £20,000,000:** £287,500

Exemptions & reliefs

Certain properties are exempt from ATED or can qualify for relief. These include:

- ▶ Property rental businesses
- ▶ Property developers and traders
- ▶ Properties used for charitable purposes
- ▶ Farmhouses and employee accommodation

Further considerations

Stamp Duty Land Tax (SDLT) Savings

One remaining tax advantage of a UK dwelling owned by an overseas company is that a purchaser can buy the company's shares, effectively acquiring the dwelling without paying Stamp Duty Land Tax. This can result in substantial savings, especially for non-residents buying a second home in the UK.

Acquisition of Shares and ATED Obligations

When an individual buys shares in a company owning a UK dwelling, they become responsible for the historic ATED position. It is crucial to carefully review past ATED returns to ensure compliance and avoid unexpected liabilities.



Further considerations cont'd

Compliance and Marketability	Non-compliance with ATED obligations by the overseas company's directors can complicate the sale. For instance, if the company qualifies for 100% relief but has not filed returns, these must be filed late, potentially incurring penalties and affecting the sale process.
Register of Overseas Entities	The Register of Overseas Entities (RoE) requires filing an annual update statement with Companies House within 14 days of the entity's registration anniversary, including any changes to beneficial owners. Even if no changes occur, a statement must still be filed. Failure to comply can result in criminal penalties.
Due Diligence	Purchasers should verify that the company has not been operated as UK tax resident to avoid further historic liabilities.

Filing obligations

Annual Submission Deadline: ATED returns must be submitted annually by April 30th following the end of the ATED year, which is March 31 st e.g. for the year end 31 March 2025, the filing deadline is 30 April 2025.	Relief Declaration Return: Even if a property qualifies for 100% relief, the company is still required to submit a Relief Declaration Return by the deadline.
Reliefs and Exemptions: There are significant reliefs available that can reduce the tax liability to nil. Notably, if the property is let to a third party on a commercial basis and is not occupied (or available for occupation) by anyone connected with the owner, the tax can be reduced to zero.	Payment and Penalties: The tax payment is due by April 30th along with the return submission. Failure to file the return or pay the tax on time can result in penalties and interest charges.

Exiting ATED

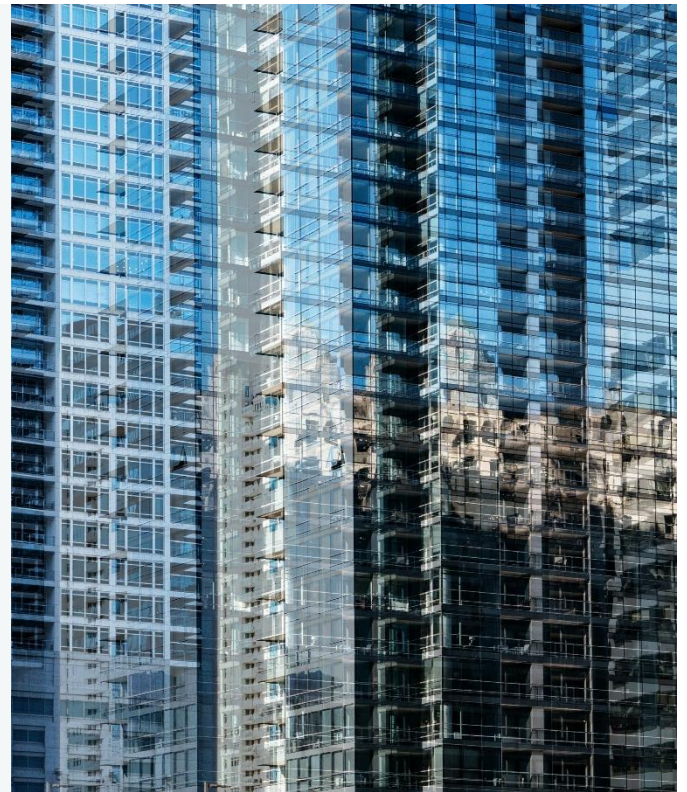
- ▶ **Property Transfer and ATED:** If a company owns a single dwelling and it is transferred out of the company, ATED will no longer be applicable.
- ▶ **Tax Implications:** While transferring the house to the shareholder may seem beneficial to avoid ATED, it can trigger other tax obligations. The overseas company would be liable for UK corporation tax on any gain realised from the transfer.
- ▶ **Stamp Duty Land Tax (SDLT):** There may also be SDLT due, even if no payment is made to the company. For instance, SDLT can be triggered if a mortgage is transferred along with the property.
- ▶ **Can be complex:** Comparing the tax costs of transferring ownership to the shareholder versus retaining it within the company is highly complex. Numerous factors must be considered to determine the most tax-efficient approach.
- ▶ **Professional Advice:** Given the intricacies involved, it is crucial to seek professional tax advice to evaluate whether transferring the property out of the company is worthwhile.



Unlock Your Vision with Trident Tax's Expert Guidance on ATED

At Trident Tax, we specialise in providing tailored UK tax advice to individuals, companies and trustees concerning ATED and ATED reporting obligations.

Whether you need assistance with compliance, exploring tax efficiencies, or unwinding property holding companies, our experts are here to guide you.



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+44 (0)207 952 2921
admin@tridenttax.com
www.tridenttax.com

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