

UK REAL ESTATE

A MOORE STEPHENS GUIDE TO BENEFITS OF USING JERSEY STRUCTURES FOR NON-UK RESIDENT AND NON-UK DOMICILED INDIVIDUALS

Facts

- A considerable amount of UK real estate is owned by Jersey structures for non-UK residents and non-UK domiciled individuals!
- This is both commercial and residential real estate

Comparison of owning UK real estate directly i.e in an individual's name rather than through a Jersey Company from a UK tax perspective

Key UK Taxes:

UK Income Tax on Rental Profits

- Owned directly:
Potential maximum rates of 40% (50% from 6.04.10)
- Owned through a Jersey Company
Restricted to 20%

UK Capital Gains on Sale of the Real Estate

- Owned directly
Not applicable as owner is not resident in the UK
- Owned through a Jersey Company
Not applicable

UK Stamp Duty/Land Tax

- Owned directly
 - On purchase: Up to 4% of the value
 - On sale: Up to 4% payable by purchaser
- Owned through a Jersey Company
 - On purchase: Up to 4% of the value
 - On sale: Not applicable as the shares in the company would be sold/transferred to the new owners rather than the real estate sold.

NB: The saving to a purchaser would normally be reflected in the sale price

UK Inheritance Tax

- Owned directly
 - On death of the individual, there would be a UK inheritance tax charge of 40% on the value over the nil rate band (currently £325,000)
- Owned through a Jersey Company
 - As the individual owns shares in a Jersey company, rather than UK real estate, this would not be applicable as there is no inheritance tax in Jersey

Example

- Real estate purchased in the UK for £5 million
- It is rented out for £300,000 per annum
- It appreciates in value to £7.5 million
- It is either sold or still owned by the individual on death

Costs of Purchase

Stamp duty at 4% on £5 million
This applies whether purchased directly or through a company £200,000

Rental @ £300,000 per annum

- Owned directly:

Income tax at 20% on £0-£37,400	£ 7,480
at 40% on £37,401-£300,000	<u>£105,040</u>
	£112,520
- Owned through a Jersey company:

Income tax at 20% on £300,000	£60,000
Annual savings of	£52,520

NB – a tax rate of 50% applies to income above £150,000 from 6 April 2010, which would increase potential savings.

Capital gains tax on Sale (value £7.5 million)

- Owned directly: Nil
- Owned through a Jersey company: Nil
- **Total savings of Nil**

Inheritance tax if owned till death (value £7.5 million)

- Owned directly:

UK inheritance tax at 40% on value at date of death Over nil-rate band (currently £325,000)	£2,870,000
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- Owned through company: Nil
- **Total savings of £2,870,000**

Other UK Matters

- If UK real estate is leased, further UK taxation savings can be achieved through proper loan arrangements as the interest on the loan can be wholly deductible when determining the taxable profit subject to UK income tax
- The Jersey company can apply to receive gross rental payments under the Non Resident Landlord's scheme, giving a cash flow advantage
- On the death of the owner, the heirs would have to apply for UK probate, which can be a long process

As ownership of UK real estate and the associated tax implications will be different for each individual it is important that appropriate professional advice is taken at the earliest possible stage.

Jersey Taxation Matters

There will be no taxes i.e. income tax, capital gains, stamp duty or inheritance tax payable in Jersey.

Benefits of holding the shares of the Jersey Company in a Jersey Trust or Foundation rather than directly - on the demise of the individual

- No requirement for the transfer of the shares to the heirs
- Effective long-term estate planning in relation to family members and generation - no expiry date of Trust or Foundation
- Avoids any forced heirship rules
- Assets may be discreetly passed to the next generation
- Estate is not subject to probate formalities in Jersey
- Estate would not be subject to Jersey stamp duty

Why Moore Stephens Jersey?

- Considerable expertise in establishing and administering real estate structures, whether holding companies, protected or cell companies, limited partnerships, trust or foundation structures or funds for expert investors
- We understand the importance of ensuring the structure is diligently managed and controlled from Jersey, whilst ensuring the clients requirements are respected

Services Provided by Moore Stephens Jersey

- Full management, administration and accounting of the real estate structure
- Preparation of financial statements from simple management accounts to consolidated accounting
- Appoint and work closely with tax advisors, solicitors, estate agents, VAT agents, managing agents and other professionals (surveyors, structural engineers etc)
- Bespoke banking facilities through our in-house Banking specialist team including complex mortgage facilities

Moore Stephens Jersey is part of Moore Stephens International, which is regarded as one of the world's major accounting and consulting networks consisting of 351 independent firms with 630 representative offices and some 21,000 people across 98 countries.

This information sheet provides a brief outline only and is not comprehensive as such and should you require further specific advice, please contact Kathy Gillen

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