



## **NON RESIDENT LANDLORD SCHEME**

### **Overview**

The Non-Resident Landlords (NRL) Scheme is a scheme for dealing with the UK taxation of UK rental income arising to non-UK resident individuals, companies and trusts.

### **Landlords Not Registered**

The 20% rate of withholding tax must be deducted from the gross rent by the letting agent (if there is one) or the tenant before the net rent is paid over to the NRL. The tax withheld is then paid over to HM Revenue & Customs ("HMRC") by the agent/tenant.

Where a NRL is not registered and approved by HMRC, the non-resident landlord will receive only 80% of the gross rents due in respect of any UK property.

If no tax return is made by the NRL, in practice the 20% withholding tax deduction will be treated as the final UK tax liability. This often means that more tax is paid than is due because no tax relief has been given for allowable costs, such as interest relief, repairs, etc.

Any return subsequently submitted will enable a refund of tax to be made if applicable, as long as the return is made within the given time limits.

If a tenant pays rent of less than £100 per week then this can be paid gross, with no deduction of tax, unless instructed to do so by HMRC. However, letting agents have to deduct tax on payments to unregistered NRLs even if the rent is less than £100 per week.

### **Registered Landlords**

Landlords can apply to HMRC for approval to receive rents gross without the deduction of tax by the letting agent or tenant.

Approval will only be granted where the landlord:

- has ensured his tax affairs are up to date, or
- has never had any UK tax obligation, or
- does not expect to be liable to UK tax for the year in which the application is made.

Where approval is given, HMRC will write to the tenant/letting agent, authorising them to pay over the rent gross.



A Self Assessment Tax Returns is required to be submitted by the NRL annually by 31 January following the tax year end. In it, relief can be claimed for all revenue expenses relating to collecting the rent, e.g. letting agent fees, mortgage interest, accountancy fees etc.

The tax liability is payable in three stages:

- Two instalments (based on the prior year's liability) payable in equal amounts on 31 January in the year to which the return relates and 31 July following the end of the tax year, e.g. for the tax year ended 5 April 2010 the 1<sup>st</sup> payment on account is due 31 January 2010 and the 2<sup>nd</sup> payment on account is due 31 on July 2010.
- Any additional liability for the tax year is payable on 31 January following the end of the tax year, i.e. the same day as the filing deadline for the return, e.g. for the tax year ended 5 April 2010 the additional balance is due on 31 January 2011. If a repayment is due, it will be repaid once the tax return is processed.

In the event that the return is late, a £100 penalty will be levied (unless no tax liability falls due). Furthermore, on late payment of the tax liability, interest will be charged. The current rate of late payment interest is 3.0%.

In the event that the tax liability remains unpaid 28 days or more after the due date a 5% surcharge will be applied to the outstanding tax liability.

Additional penalties and interest can be levied if the return remains outstanding for a further 6 months.

However a new penalty regime for late notification of a tax liability, late filing of a tax return, and late payment of a tax liability is being introduced gradually over the next few years.

**If you would like to know more then please contact**

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