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U.K. Property Tax Targets Wealthy Russians

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The British government has introduced tax rules that will hit foreign owners and buyers of high-value residential properties in the country, with wealthy Russians living in London being among the main targets.

According to the rules, which are part of the 2013 draft finance bill published Dec. 11, properties worth £2 million and above owned by non-British resident companies, partnerships or collective investment vehicles will be subject to an annual residential property tax.

The policy will take effect in April. Tax rates will vary, from £15,000 for properties valued between £2 million and £5 million to £140,000 for those worth more than £20 million.

"We didn't notice any decline in the number of high-value property deals made by Russians after March 2012, when the rules became tougher," said Nelly Trufan, customer relationship coordinator at real estate agency Savills. "What happens after December 2012 is still difficult to say."

"In general, in 2012 Russians bought more property in the U.K. compared with 2011," she said. "But most Russians don't know British legislation and new rules in advance, so they come here and know about it when the deal is already on the way."

The previous tough tax measure was introduced in March 2012, when high-value corporate property was hit with a 7 percent charge.

In addition to the residential property tax, a 28 percent capital gains tax will apply to people who sell expensive property, and a 15 percent stamp-duty land tax will be imposed on buyers of real estate.

Though the amount of the new taxes is acknowledged to be very high, real estate specialists are positive about the new measure, saying it will eliminate uncertainties for foreigners involved in property deals in Britain.

"The new bill will bring the U.K. in line with the jurisdictions of other countries," said Damian Bloom, international tax and estate planning specialist at law firm Berwin Leighton Paisner.

But the tax rules could adversely affect the London real estate market, Bloom said.

"After April 2013, we expect a decline in the number of transactions," he said.

According to the financial bill, each year, the tax rates will be increased according to the consumer price index.

"In London, a £2 million house is not a good one, but in north England you can buy a castle for this amount of money. The rates are not fair then," said Michael Krieger, fellow chartered accountant at consulting company Hazlems Fenton.

Bloom, on the contrary, thinks the new provisions are fairer than the previous ones.

"The news is that there are quite extensive reliefs," said Neville Wright, taxation expert at Berwin Leighton Paisner.

According to the bill, genuine property rental businesses, properties held for charitable purposes and those run as a commercial business will be eligible for tax breaks on an annual basis.

The bill also excludes real estate developers if land is acquired in the course of a "bona fide" property development business or for the sole purpose of developing and reselling, and if the company had been doing business of that nature for two years before the purchase.

The main purpose of the new rules is to tackle tax evasion, but real estate companies have already discovered loopholes in the measure.

"Like in Russia, politics is in the middle. The government wants to make an impression that it will tackle a problem, but in fact the rules are badly sorted out," Krieger said.

It's not difficult to avoid the tax, Bloom said.

For new buyers, the easiest option is purchasing individually as opposed to through a company. Acquiring real estate through trustees will also allow consumers to avoid the tax, as trusts are excluded from the new rules.

"The best way not to pay [the tax] is not to buy through an offshore company," Krieger said.

Because offshore companies will be subject to the capital gains tax on the disposal of high-value residential property starting April 6, there is enough time to restructure properties.

But Hazlems Fenton advises people to do this with care because of the risk of triggering a capital gains tax liability under the current rules.

Since tax rates are much lower for individuals than for companies, analysts expect that a restructuring will take place, even though the confidentiality that could be obtained when purchasing through a company will no longer be available.

Berwin Leighton Paisner advises existing companies to review their structures for pre-April planning and clear out gains to nonresident beneficiaries.

"The big change is that properties acquired by April 2013, when the rules come into effect, will be not affected by the bill," Bloom said.

The most attractive areas for Russians are those in central London:

Knightsbridge, Mayfair, and Chelsea. But Surrey, Berkshire, Oxfordshire and Buckinghamshire are also popular destinations for Russians to buy premium property in Britain.

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