<u>Its not just brown envelopes which interest HMRC now</u>

ATED – the background

The acronym ATED stands for Annual Tax on Enveloped Dwellings. This is an annual tax levied on residential dwellings worth more than a certain value that are owned, wholly or partly, by a non-natural person (company, partnership with a corporate partner or collective investment scheme). It was introduced in April 2013 and was initially applied to properties valued at £2m or more on 1 April 2012 or, if aquired after 1 April 2012, those with a purchase price of £2m or more. The government introduced ATED to discourage the use of 'enveloping' properties within companies to avoid paying Stamp Duty Land Tax.

Since its introduction the government has continued to reduce the threshold of ATED so it applies to more properties. From 1 April 2016 a new band for properties valued at greater than £500,000 but less than £1m is being introduced. This will affect many taxpayers whose houses have been held in companies for historic reasons as well as industries such as farming and estates.

The current ATED bands and charges are listed below:

<u>Property Value (at 1 April 2012)</u>	**<u>Annual Charge</u>**
£500,000 to £1,000,000 (from 01 April 2016)	£3,500
£1,000,000 to £2,000,000 (from 01 April 2016)	£7,000
£2,000,000 to £5,000,000	£15,400
£5,000,000 to £10,000,000	£35,900
£10,000,000 to £20,000,000	£71,850
More than £20,000,000	£143,750

To work out your liability you need to know the value of your property at 1 April 2012. A professional valuation of any properties owned prior to this date will inevitably incur a fee. All eligible properties will need to be re-valued every 5 years.

Do I need to complete an ATED return?

ATED was never intended to apply to situations where residential property is owned by a corporate body as a genuine business asset. Firstly it is important to note that the tax applies only to residential dwellings and does not include the following properties:

- Hotels
- Guest Houses
- Boarding School Accommodation
- Hospitals
- Student Halls of Residence
- Military Accommodation
- Care Homes
- Prisons

Secondly, depending on the circumstances there are a number of reliefs and exemptions available. These may be claimed if the dwelling fulfils any of the following criteria:

1. Let to a third party on a commercial basis and isn't, at any time, occupied (or available for occupation) by anyone connected with the owner.
2. Open to the public for at least 28 days a year.
3. Being developed for resale by a property developer.
4. Owned by a property trader as the stock of the business for the sole purpose of resale.
5. Repossessed by a financial institution as a result of its business of lending money.
6. Being used by a trading business to provide living accommodation to certain qualifying employees. For example a farm worker, where the farm worker does not have an interest (directly or indirectly) in the company of more than 10%. The farm workers duties must not include services for any present or future occupation of the property by someone connected with the company. The relief is also available where a partner in a partnership does not have an interest of more than 10% in the partnership.
7. A farmhouse occupied by a farm worker or a former long-serving farm worker, or their surviving spouse or civil partner.

All exemptions are subject to stringent conditions and you should obtain professional advice as to whether you meet these conditions. It is important also to note that even if your property qualifies for relief, AN ATED RETURN MUST STILL BE SUBMITTED EACH YEAR TO CLAIM THE RELIEF. The return period runs from 1 April and the completed return and any tax due is required by 30 April. Your accountant will be able to complete the form for you.

Due to the newer thresholds, ATED is likely to have a large impact on the agricultural industry going forward and will give rise to unexpected tax charges to many businesses. It may be possible to avoid ATED through restructuring, however, there are other factors which should be considered before any restructuring takes place.

As always, if you are concerned about how this tax might affect a property you currently own or a future purchase please take professional advice.

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