



MOVING OVERSEAS AND LETTING A UK PROPERTY – WHAT SHOULD YOU DO?

Selling a property in the UK to finance a new home in Australia can be hugely compelling, particularly if you are a taxpayer with equity in a UK property, and want to purchase a new house in Australia.

So long as the property being sold in the UK has been your main residence throughout the period of ownership, and you sell before leaving the UK (or indeed shortly afterwards), there should be no capital gains tax to pay, and you can transfer the funds to Australia without restriction.

But what about the situation when you want to let out your former UK home? How does the tax work then?

Unsurprisingly HM Revenue & Customs in the UK will have some interest in what you are doing and you must take care to jump over all the necessary barriers - if you don't you can expect to be subject to penalties and interest. Similarly, once you have become a tax resident of Australia the Australian Taxation Office will require you to include details of your UK let property on your Australian Tax Return. So are you taxed twice on the same income?

Looking first at the UK position: you should be aware that a surplus of rental income over allowable rental expenses remains taxable in the UK, irrespective of where you live and whether you are resident outside the UK.

This is further complicated in that once you leave the UK to live abroad your tenant (if you have not appointed a letting agent) or the letting agent (if you have) is required to deduct tax at the basic rate from your rental income less the allowable expenses, and must pay this to HM Revenue.

However, you can apply to the special tax office that deals with these issues for approval for your property income to be paid to you without tax being deducted.

You will also be expected to submit a UK Tax Return each year, even if the rental expenses exceed the rental income. Rental expenses includes mortgage interest (not capital), and you can usually expect to be entitled to UK personal allowances. These often absorb all if not most of the surplus rental income, meaning that little if any tax will be payable to the HM Revenue in the UK.

However, once you become tax resident in Australia most taxpayers become chargeable to tax on worldwide income and capital gains. As a result, you should plan to include details of your net UK property income on your Australian Tax Return, with the net income forming part of your assessable income that is chargeable to tax in Australia.

As you might have hoped, you will be given credit for any tax you have paid in the UK when computing the amount of tax that you have to pay in Australia.

The capital gains tax position will depend on your personal tax residency status when you dispose of the interest in the property. This subject is dealt with in our separate tax sheets on capital gains tax.

Further Assistance

We will be pleased to advise further with tax planning and compliance in respect of a move to Australia. With an office in the UK and through our sister business, Go Matilda (which has offices in Melbourne, Perth, Brisbane, and Geelong – see www.gomatilda.com for contact details) we are ideally placed to help.

If you would like some assistance with your tax affairs please telephone us in Southampton or in Australia. An advisor will be pleased to discuss how we can help.

The contents of this factsheet are necessarily a general overview of a very detailed subject. The situation may change as tax legislation can alter quickly and we therefore strongly recommend that you take professional advice about your personal circumstances before placing any reliance on the contents of this factsheet.

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