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Knightsbridge Wealth

technical news

For professionals working with international clients

Non-dom update

The UK Government announced its intention to introduce changes in the tax treatment of non-UK domiciliaries (non-doms) in the Summer Budget of 2015. A process of consultation on those changes has been ongoing. We have been provided with some draft legislation on the new definition of a non-UK domicile, but the details of some of the reforms had been withheld until the publication of a consultation document that was issued on 19 August 2016.

There are still some areas where more information is required, and the details are not finalised, but we do, at last, have a better sense of what the post 6 April 2017 regime will look like.

There has been some movement from the last consultation position that is helpful, but the changes to the proposals for the treatment of offshore trusts is not as beneficial as initially thought.

The changes include:

- a new concept of 'deemed UK domicile' for those who have been a UK resident for more than 15 out of the previous 20 years, which applies to all direct taxes;
- transitional provisions which allow a tax-free rebasing of foreign assets in certain circumstances, as well as a limited ability to unravel historic funds held overseas which could otherwise not be remitted to the UK without a tax charge;
- changing the treatment of offshore structures, such as trusts settled by an overseas company, where held by deemed UK domiciliaries;
- people who were born in the UK with a UK domicile of origin and who acquired a non-UK domicile after leaving the UK will be treated as UK domiciled if they return to the UK;
- subjecting UK residential property to inheritance tax where it is held through offshore structures, even where the beneficial owner is not resident in the UK.

It is understood that further changes are due to be announced. The next likely update can be expected on 5 December 2016, on publication of the draft 2017 Finance Bill. However, the rules may still then be subject to change and this will leave affected individuals and structures very little time to plan what action to take before 5 April 2017.

Tax hikes lead to tumbling property transactions

Measures introduced a year ago included increased stamp duty of 12% on anything paid for a house over £1.5m, while landlords faced paying an additional 3% stamp duty on any new purchases, as well as a timetable to ultimately cut tax relief on mortgage interest payments for landlords.

Taking the stamp duty hike on expensive properties first, the effect was immediate; transactions tumbled along with prices. But the trend accelerated in the wake of the referendum result. Prime central London forms a tiny part of the overall housing market, but the effects have been little short of spectacular. According to residential property adviser London Central Portfolio (LCP), transactions in the three months to August 2016 on properties worth more than £10m slid to just 5, from 35 a year earlier. On top of this, the average price paid for the top five most expensive sales collapsed from £22m to £16.3m. Over the same period, the percentage of new-build sales dropped from 23% of all sales to zero. The effects have reached beyond prime central London, too. So, whereas 30% of all sales in the most desirable postcodes

involved sale prices of above £10m, in the three months to August the percentage dropped to zero.

LCP calculates that just in those three months the lack of super-priced sales will shave around £45m off stamp duty receipts. And the trend is likely to continue because new high-priced developments are now being reworked and divided into smaller units that will attract lower stamp duty. The only ray of sunshine – again, another unintended consequence – is that overseas buyers may be inclined to brush aside the hastily erected financial barriers because sterling's 20% decline against the US dollar makes buying a house in central London that much cheaper. However, non-UK residents owning a property in the UK are now subject to the same capital gains tax rules that apply to a UK resident.

This all makes many buy-to-let propositions uneconomical. According to crowd-funding platform, Property Partner, 40% of UK towns and cities reported a drop in the number of buy-to-let properties listed on the market in September, continuing August's decline. New rental advertisements in Manchester and Birmingham fell by around 13% in September from August, while in Oxford and Canterbury the drop was nearer 25%. By contrast, and perhaps against expectations, London saw new rental property listings increase in September by 1.4%, a considerable improvement on August when the supply dropped by 16.4%. Institutional funds being used to back purpose-built rental accommodation could at some point help to ease this shortfall, but that will take time. And with the taper on mortgage tax relief coming in next year, the number of landlords walking away could accelerate. For those with significant mortgage exposure, the obvious way to help balance the books is to increase rents quite significantly; and that's bad news for tenants.

More pain for buy-to-let investors

New regulations that come into force next September will see borrowing costs climb for landlords with four or more buy-to-let properties. This is the latest in a string of measures designed to clamp down on buy-to-let investing.

Currently, most mortgage providers assess buy-to-let loans on the basis of whether the property will bring in enough rental income to cover the mortgage. Under the new regulations, for anyone who already owns four or more buy-to-let properties, lenders will have to check the viability of the landlord's entire portfolio before being able to offer a mortgage on a single property. This will lengthen the underwriting process for lenders, raising costs and likely meaning higher rates of interest for many landlords with larger portfolios.

Even if landlords find a suitable lender, there are other headwinds to battle. Following the removal of the wear and tear allowance and the introduction of the 3% stamp duty surcharge in April, landlords – from April 2017 – who own buy-to-lets in their name will no longer be able to deduct all of their mortgage interest costs from rental income when calculating the tax owed. The relief will be phased in over the next three years. Hardest hit will be higher-rate taxpayers and those with large mortgages. Since landlords who own properties through a limited company are not affected, it may be worth incorporating. Others may simply sell up. A survey of 1,000 private landlords found that 25% have already sold or plan to sell. Savills expects the number of buy-to-let transactions to fall by 33% over the next three years.

Is anyone buying London's new homes?

The number of unsold homes being built in central London will reach a record high this year, increasing the risk that developers' bets on rising demand for luxury properties will go sour. The amount of residential properties that are under construction, but that do not currently have a buyer, will hit 10,829 by the end of 2016, a 24% increase on the end of 2015, according to a report by property

consultancy Molior London. The number of unsold completed units will jump from 285 to 779.

Developers have started construction on more new homes than they have sold each year since 2012, says the report, resulting in "a glut that could cause house prices to fall". This year's figure will be the highest since Molior began collecting data in 2009. With the average asking price for new homes in central London still standing at more than £1,000 per square foot, it will take more than 2.3 years to sell the homes under construction. This compares with 1.25 years at the end of last year.

House prices in prime central London (including Knightsbridge and Westminster) have already started to drop, according to data from estate agents Knight Frank. Prices saw a decline of 1.8% in August and 2.1% in September – the biggest falls since October 2009. In addition to uncertainty brought about by Britain's vote to leave the European Union, a decrease in demand can also be partly attributed to the increase in stamp duty payable on second homes and buy-to-let purchases. Prices in London's prime locations could fall by as much as 9% this year, predicted estate agents Savills in September.

Changes to Cyprus Investment Programme

Important changes were recently made to the programme to obtain Cypriot Citizenship by Investment. This programme enables successful applicants to gain an EU passport.

The minimum investment has been reduced from €5 million €2.5 million, or only €2m if the investment is only made in residential property, of which one property must be worth at least €500,000 and must be the investors' private residence.

The applicant's parents are also eligible to apply for citizenship by investing an additional €500,000 in a permanent residential property. In other changes, the amount that can be invested in Government Bonds is now capped at €500,000.

The programme's advantages include Fast track procedure (application and approval takes six months) and full EU citizenship is obtained, with the right to freely reside, work, study, or have a business in any of the EU-member states, as well as in Switzerland, Liechtenstein, Norway and Iceland.

Dual Citizenship is permitted in Cyprus and there are no requirements to reside in Cyprus after obtaining the Cypriot citizenship. Eligibility for application is passed on to the investors' spouse, children (dependants up to the age of 28) and their descendants.

Investors divided on Trump

Investors are trying to figure out what policies Trump may put into place once he becomes president, while also looking for signs that years of rock-bottom interest rates and fiscal austerity are coming to an end.

Many fear that Trump's arrival in the White House may well mark the end for the three-decade 30-year bull run in bonds. His promises of tax cuts and increased government spending have raised fears of rising inflation in the years ahead, leading to a bond sell-off that wiped off more than $1trn in value. Longer-dated bonds – those maturing further in the future – have been hardest-hit, since these are most vulnerable to shifts in investors' expectations for inflation over the long run. However, those maturing sooner may not be spared if investors start to expect that Trump's policies will mean that the US Federal Reserve starts to raise interest rates more aggressively.

While bonds suffered, the dollar soared to a one-year high, as traders speculated that Trump will succeed in boosting US growth. Investors also jumped into equities, driving up industrial and financial stocks that are

considered likely to benefit from his policies. Whether this rally will be sustainable is highly unclear. To be bullish, one must believe that he will remain more "presidential" in his personal manner and also show the world that he plans to rein in some of his more draconian ideas, such as a slew of protectionist measures and the deportation of millions of undocumented immigrants.

In addition, if Trump's actions lead to stronger growth and tighter monetary policy, that's very likely to lead to further dollar appreciation, damaging the earnings of export-oriented sectors. Industries such as steel and manufacturing will become less globally competitive, leading to pressure on Trump to live up to his protectionist rhetoric. There are plenty of ways this could go wrong.

Oil prices to remain low

At a meeting in Algiers a few weeks ago, Opec – which pumps 40% of the world's oil – said it wanted to reduce production to help mop up the global glut and shore up the low prices that had become a major strain on producers' budgets; Saudi Arabia has had to issue its first international bond to top up its coffers. Talk of cuts marked a U-turn after two years of deliberately flooding the markets to put US shale producers out of business.

Oil bounced by around 15% in the weeks after the announcement, but it has now slid back to a three-month low of around $45 a barrel – losing almost 10% in a week – as a deal seems less likely. For starters, Iran and Iraq made it clear they had no intention of reining in output. No wonder. Iraq needs all the revenue it can generate to fend off Islamic State and repair its broken country. Iran is keen to regain market share, now that it is no longer frozen out of the international system by Western sanctions.

Contact us

If you require further information about our services and how we can assist your clients, then please call us on the number below, or send us an email about how and when we can contact you.

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