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Real Estate Tax Guide

UK Edition 2025

OVERVIEW

Note: This UK tax section considers the key high-level UK tax considerations for investors who intend to hold UK real estate for rental purposes and/or for long-term capital appreciation. This section should not be considered to cover all possible UK tax issues that could arise in relation to such matters. The following comments are principally aimed at individuals and companies holding property let to third parties. There are other methods of owning such UK real estate available, but the associated tax considerations could be more complex.

Please note that different UK tax rules may apply if UK property is held for resale/trading purposes. This may be found to be the case upon a review of the facts and intentions of the investor or deemed to be so where anti-avoidance rules apply (e.g. 'Transactions in UK Land' rules).

Tax treatment of income and gains ** See Capital gains section for individuals disposing of residential investment property below.*

Taxpayer	Basis of tax	Tax levied	Tax rates (2025)
Resident individual	*Worldwide rental profits after the deduction of allowable property expenses incurred operating the property business.*	Income tax	20%, 40% and 45% (19%, 20%, 21%, 42% and 47% for Scottish taxpayers)
	Capital gains arising on the direct or indirect disposal of worldwide property interests.	Capital gains tax	10%, 18%, 20% and 28%* From 30 October 2024, the 10% rate increased to 18% and the 20% rate increased to 24%
Non-resident individual	*Rental profits from UK property after the deduction of allowable property expenses incurred operating the property business.*	Income tax	20%, 40% and 45%
	Capital gains arising on the direct or indirect (i.e. held in 'property rich entities', as defined) disposal of interests in UK property are taxable (subject to certain exemptions).	Capital gains tax	10%, 18%, 20% and 28%* From 30 October 2024, the 10% rate increased to 18% and the 20% rate increased to 24%
Resident company	*Worldwide rental profits after the deduction of allowable property expenses incurred operating the property business.*	Corporation tax	25%
	Capital gains arising on the direct or indirect disposal of worldwide property interests.	Corporation tax	25%
Non-resident company	*Rental profits from UK property after the deduction of allowable property expenses incurred operating the property business.*	Corporation tax	25%
	Capital gains arising on the direct or indirect (i.e. held in 'property rich entities', as defined) disposal of interests in UK property are taxable (subject to certain exemptions).	Corporation tax	25%

Preliminary considerations

An individual will generally be considered a UK tax resident based on the number of days spent in the UK in a given tax year. However, there is a statutory residence test that should be considered. A non-resident individual is an individual not considered UK tax resident following the application of the statutory residence test. An individual is a Scottish taxpayer in a tax year if they are UK tax resident in that tax year and they meet certain tests based mainly on their place of residence.

A company is generally considered UK resident if it is incorporated in the UK or, if not incorporated in the UK, at times when its central management and control is exercised in the UK. A non-UK resident company may also be within the charge to corporation tax where the company carries on the trade of dealing or developing UK land. A non-UK resident company is a company that does not meet the definition of a resident company or is treated as resident in another jurisdiction under the domestic legislation of that jurisdiction and by virtue of an applicable double tax treaty in place between the UK and that jurisdiction.

Since April 2020, non-UK resident companies deriving rental income from UK real estate are also subject to UK corporation tax on their rental profits, having previously been subject to UK income tax.

Under UK law, a person will generally be considered to own an interest in a property in one of two capacities:

- Freehold interest – where the person has permanent and absolute tenure over a piece land or property.
- Leasehold interest – where the person does not have a freehold interest and is considered to 'own' an interest in the property under a legal agreement (i.e. a lease) for a fixed period.

The UK maintains a wide array of anti-avoidance legislation. Many of the transactions considered in this document may be subject to counteraction by such legislation if they are undertaken at other than arm's length and/or on a non- commercial basis.

Rental profits

Individuals

UK resident individuals in receipt of rental income are subject to income tax on the profits (rental income less allowable expenses) arising from their worldwide property business.

Non-UK resident individuals deriving rental income from UK real estate are generally subject to income tax on the profits (rental income less allowable expenses) arising from their UK property business.

Liability to tax

Subject to the availability of certain allowances, income tax is currently levied at progressive rates (as noted in the table above), depending on the total income of the individual in the relevant tax year.

Companies

UK resident companies in receipt of rental income are subject to corporation tax on the profits (rental income less allowable expenses) arising from their worldwide property business.

Since April 2020, non-UK resident companies deriving rental income from UK real estate are also subject to UK corporation tax on their rental profits, having previously been subject to UK income tax.

Liability to tax

Corporation tax is currently levied at the following rates on property rental business profits for both UK resident and non-UK resident companies:

- 19% - taxable profits of £50,000 or less; 25% - taxable profits over £250,000.
- Companies with taxable profits between £50,000 and £250,000 will pay tax at a rate of 25% reduced by a marginal relief.

These thresholds are reduced by the number of "associated companies" (broadly, being companies that are under common control).

Capital gains

Individuals

Individuals are subject to capital gains tax on chargeable gains made on the disposal of UK real estate unless the individual is trading/dealing in property, when income tax applies to the profits arising. In general, chargeable gains are calculated by taking the proceeds received on disposal and deducting original acquisition costs (including incidental costs) and qualifying enhancement expenditure incurred on the property. Indexation allowance is not available to individuals.

Please note that where a non-resident holds commercial real estate investments, the deductible base cost in calculating capital gains on disposal is uplifted to the market value of the property concerned at April 2019 (if held prior to that date), subject to any elections made to the contrary. For most residential property interests, a similar rebasing took place on April 2015.

Exemptions on the disposal of real estate investments by non-residents may apply providing certain conditions are met (for example, where a non-resident disposing of their shares in a property investment company has less than a 25 per cent interest in it).

Liability to tax

Capital gains tax is levied at 18 per cent or 20 per cent for both residential and commercial property, from 30 October 2024. The rates were previously 10 per cent or 20 per cent (commercial property), or 18 per cent or 28 per cent (residential property) depending on the individual's total income and chargeable gains for the relevant tax year.

Exemptions/deferrals

Individuals are entitled to an annual capital gains exemption, which can be used to reduce the amount on which capital gains tax is paid.

Elections to defer the tax liability arising on the disposal of real estate assets held for certain purposes can be made, providing certain conditions are met.

Companies

Capital gains generated by companies are subject to corporation tax but are calculated by applying the same capital gains tax principles and rules that apply for individuals. However, an additional indexation allowance is available to reflect the effect of inflation on original cost up to 31 December 2017 (when this relief was frozen on assets owned at that date). A loss cannot be created or increased as a result of indexation, so its maximum effect is to reduce a gain to £nil.

Please note that where a non-resident company holds commercial real estate investments, the deductible base cost in calculating capital gains on disposal is uplifted to the market value of the property concerned at April 2019 (if held prior to that date), subject to any elections made to the contrary. For most residential property interests, a similar rebasing took place as at April 2015.

Exemptions on the disposal of real estate investments by non-resident companies may apply providing certain conditions are met (for example, where a non-resident company disposing of its shares in a property investment company has less than a 25 per cent interest in it or where the property is held for trading purposes).

Liability to tax

The rate of tax applied is the corporation tax rate relevant for the accounting period in which the disposal takes place, currently 25 per cent.

Exemptions/deferrals

No annual capital gains exemption exists for companies.

Where real estate assets held for certain purposes are sold, and some or all of the proceeds are reinvested in replacement qualifying assets within a given timeframe, it may be possible for some or all of the tax liability to be deferred until subsequent disposal of the replacement assets acquired.

Where the replacement assets are 'depreciating' assets (assets with a useful life of no more than 60 years, including leasehold property with an unexpired term of no more than 60 years), the tax liability deferred on the assets disposed will crystallise 10 years after the replacement assets are acquired or, if earlier, when they are sold or cease to be used in the business, unless they have been replaced with non-depreciating assets before that time.

Transfers of real estate within a corporate group are generally deemed to take place on a 'no gain/no loss' basis with no capital gains arising at the date of transfer. Exit charges based on the gain that would have been recognised on a direct disposal of the asset may, however, apply if the transferee company leaves the capital gains group within six years of the original intra-group transfer.

Value added tax and property transfer taxes

Property type	Basis of tax	Tax levied	Tax rates (2025)
Residential property	Rental/sale income	VAT	VAT zero-rated or VAT exempt
Non-residential	Rental/ sale income	VAT	VAT standard-rated or VAT exempt

Value added tax (VAT)

Individuals and companies

VAT is a broadly-based consumption tax levied on the supply of goods and services in the UK. VAT is applicable to the value of the supply, not merely the profit element derived from that supply. In principle, all commercial activities involving the production and distribution of goods and the provision of services that are bought and sold for use or consumption fall within the scope of VAT. Unless VAT legislation specifically exempts a supply from VAT, the supply of goods or services is 'taxable'.

In the UK the primary rates of VAT and/or VAT treatments that apply are:

- Standard rate of VAT: currently 20 per cent.
- Reduced rate of VAT: currently 5 per cent.
- Zero–rate of VAT: goods and services that fall within this category are 'taxable', but the UK government has applied a VAT rate of 0 per cent. This means that the supplier is not required to charge VAT on the goods/services supplied, but because these supplies are 'taxable', the business is able to recover any VAT (input VAT) incurred on costs associated with making them.
- Exempt from VAT: no VAT is charged on exempt goods and services but, subject to a de minimis rule, no input VAT can be reclaimed on the costs associated with making such exempt supplies.
- Outside the scope of UK VAT: essentially anything not included within the other four categories. As an example, the transfer or sale of a real estate letting business, or inclusion of real estate in the 'transfer of a going concern', may, subject to certain conditions, be treated as outside the scope of VAT.

Liability to tax

The VAT regime applicable to real estate transactions is particularly complex and hence a primary concern for businesses engaged in transactions involving land and property. The 'place of supply' of property and of property related services is where the property is physically situated. Such supplies may be subject to VAT (output VAT) at the standard-rate or the zero-rate, or otherwise exempt from VAT. The VAT treatment depends on the nature of the supply (construction, sale, letting etc), whether the property is residential or commercial in nature, and whether (for certain commercial property transactions only) the supplier has 'opted to tax' their interest in the property, thereby turning what would otherwise be an exempt supply into a taxable supply, and consequently affording recovery of input VAT on associated underlying costs.

In addition, where an investor has developed a residential property, the first grant of a major interest (freehold sale or lease exceeding 21 years) is zero-rated. However, all subsequent grants in the property are VAT exempt.

There are, however, several property related supplies that will always attract VAT at the standard rate. These include, but are not restricted to, the provision of hotel and holiday accommodation, hunting and fishing rights, and timber rights.

Therefore, if a UK business is required to charge VAT on the sale or lease of commercial property, the purchaser/lessee will need to factor this VAT charge into their cash flow and/or cost projections. It should also be noted that some services related to UK property are subject to the VAT ‘reverse charge’ mechanism and businesses with a UK property portfolio must account for both UK input VAT and output VAT on these transactions. Since 1 October 2020, a UK domestic reverse charge is also expected to apply to construction services and will affect any business that makes or receives construction services within a construction supply chain.

The UK VAT system is highly complex and each transaction and the potential exposure to VAT must therefore be assessed on its own merits on a case by case basis.

Interaction with transfer taxes

Property transfer taxes (stamp duty land tax (SDLT) in England and Northern Ireland, land and buildings transaction tax (LBTT) in Scotland and land transaction tax (LTT) in Wales) are charged on UK real estate transactions, based on the VAT inclusive consideration given for such property interests. The VAT inclusive value should also be applied in calculating the net present value of rentals in determining any such property transfer taxes due in respect of leases, if VAT is charged on rentals.

Property transfer taxes

Individuals

SDLT (England and Northern Ireland), LBTT (Scotland) and LTT (Wales) are charged on real estate transactions to acquire UK real estate interests. They can apply to both freehold and leasehold property transactions.

Liability to tax

In respect of freehold properties, SDLT, LBTT and LTT are generally applied based on the consideration given for the property on acquisition, which applies to both residential and commercial real estate. Different sets of rate bands apply depending on whether the property is residential or commercial property. In each case, progressively higher rates apply to the extent the value of the property exceeds various thresholds, generally ranging from 0 per cent to 12 per cent for residential property and from 0 per cent to 5 per cent (SDLT and LBTT) or 6 per cent (LTT) for non-residential and mixed use property.

A surcharge of 5 per cent, on top of the standard rate of SDLT and LTT (8 per cent for LBTT (from 5 December 2024), and 5%for LTT from 11 December 2024), generally applies on UK transactions which result in the acquirer holding more than one residential property (or where a company or trust acquires residential property in certain circumstances).

In addition, since April 2021, where a non-UK resident acquires residential property (directly or indirectly through a UK resident company), in England and Northern Ireland, a new 2 per cent SDLT surcharge will apply. This could mean the highest rate of SDLT may be 17% in certain cases.

SDLT, LBTT and LTT are also payable on entering certain leases (residential leases do not generally attract LBTT (Scotland) or LTT (Wales)). The SDLT, LBTT or LTT payable is determined by the extent to which the net present value (NPV) of the lease rentals exceed threshold amounts.

Companies

SDLT/LBTT/LTT principles generally apply in the same way to companies as for individuals.

Liability to tax
See section on Value added Tax (VAT), property transfer taxes and individuals.

Exemptions
Exemptions may be available, for example where a property is transferred between members of the same corporate group.

Local taxes

The UK does not impose tax on a local/state basis in respect of income or capital gains deriving from real estate. However, other annual charges could arise such as business rates charged in connection with the occupation of non- residential properties and council tax on residential properties.

Annual tax on enveloped dwellings

An annual tax on enveloped dwellings (ATED) applies where high value residential property is held by a company, a partnership that has at least one corporate member or a collective investment scheme (CIV). However, reliefs may be available, for example where the property is used in a rental business or is being developed for resale.

ATED currently applies where the property valuation was greater than £500,000 as at 1 April 2022. The valuation date is updated every five years with the next valuation date set for 1 April 2027.

Withholding taxes

UK withholding tax obligations can arise in respect of certain annual payments, including interest. Typically, this obligation arises when the payee is either a UK individual or is otherwise resident outside of the UK. The withholding obligation can be mitigated in part, or in full, for example, under the terms of an applicable double tax treaty in place between the UK and the relevant overseas jurisdiction.

Tax may also need to be deducted from rental income (net of certain expenses) received by non-resident individual/corporate owners unless an application is made to HMRC to receive the rental income gross. It should be noted that HMRC has the right to refuse this application if the non-resident person is unable to demonstrate that they are compliant with their UK tax obligations.

Where tax is required to be withheld from rental income, this must be deducted by the tenant or letting agent, dependent on the circumstances, and the tax must be paid to HMRC on a quarterly basis.

Suitable vehicles

Commonly used vehicles

Limited companies
Limited companies are often used to hold UK real estate and are generally treated subject to UK tax in their own capacity.

Partnerships, Limited Liability Partnerships (LLPs)
Investments in real estate may also be undertaken on a collective basis by entities and/or individuals through partnerships or limited liability partnerships (LLPs). The gains and/or losses deriving from investments are taxable on the individual/corporate partners based on their share of those gains and/or losses following income tax, corporation tax or capital gains tax principles, as appropriate. Note that investor sharing ratios can differ for capital and income profits.

Trusts
Trusts are another common investment structure for holding UK real estate. Tax law regarding trusts is complex and tax advice should be sought on a case by case basis as different types of Trust are taxed differently. Trustees are responsible for paying tax on income received, not the Trust itself.

Specific real estate vehicles

Investors that acquire property through a corporate vehicle which meets strict criteria may qualify for special tax exemptions. Broadly speaking, this is where an investor invests via a collective investment scheme (CIS), such as a Real Estate Investment Trust (UK-REIT) or Property Authorised Investment Fund (PAIF).

In addition, offshore vehicles such as Jersey and/or Guernsey property unit trusts and Fonds Commun de Placement (based in Luxembourg) are known to be attractive to various investors in UK real estate owing to their flexibility and relatively undemanding regulatory environment.

Specialist tax advice should always be obtained when considering these structures as the tax rules are particularly complex and the administrative requirements are extensive.

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