



Inland
Revenue

Non-resident landlords, their agents and tenants



We produce a wide range of leaflets, booklets and Helpsheets each designed to explain different aspects of your tax or National Insurance in plain English, and to assist with the completion of tax returns. Most of them are free, and most are also available in Welsh.

Some you might find useful are

- COP1 Putting things right. How to complain
- IR20 Residents and non-residents. Liability to tax in the United Kingdom
- IR37 Appeals against Tax, National Insurance Contributions, Statutory Sick Pay and Statutory Maternity Pay
- IR87 Letting and your home
- IR138 Living or retiring abroad?
- IR150 Taxation of rents. A guide to property income

We have a full range of services for people with disabilities, including leaflets in Braille, audio and large print. For details, please ask your local Inland Revenue office or Enquiry Centre

Our IR List 'Catalogue of leaflets and booklets' gives further information about our publications, most of which you can get from any Inland Revenue Enquiry Centre, Tax Office or National Insurance Contributions office. Addresses are in your local telephone book under 'Inland Revenue'. Most offices are open to the public from 8.30am to 5.00pm, Monday to Friday, and some are also open outside these hours.

Social Security offices and Job Centre Plus offices (part of the Department for Work and Pensions) and your library or Citizens' Advice Bureau may also have copies of our leaflets.

You can also get most of our leaflets

- by calling our Orderline on **0845 9000 404** between 8.00am and 10.00pm, seven days a week (except Christmas Day)
- by fax on **0845 9000 604**
- by e-mail on **saorderline.ir@gtnet.gov.uk**
- by writing to
PO Box 37
St Austell
Cornwall
PL25 5YN

Many leaflets are also available on the Internet at **www.inlandrevenue.gov.uk**

When our offices are closed, you can get general advice on Self Assessment by calling our Helpline, in the evenings or at weekends, on **0845 9000 444**.

Helpline and Orderline calls are charged at local rates.

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Introduction

This leaflet tells you about the Non-resident Landlords Scheme, which is designed to tax the UK rental income of landlords whose 'usual place of abode' is outside the UK. It tells you about the tax obligations of the landlords, their letting agents and tenants.

The Non-resident Landlords (or NRL) Scheme applies to UK rental income paid from 6 April 1996. It replaces the earlier arrangements that applied to UK rental income paid before that date. The NRL Scheme is administered principally by the Inland Revenue's Centre for Non-Residents (CNR). Their address and telephone numbers are on page 21.

How does the NRL Scheme work?

From 6 April 1996, letting agents (or tenants where there is no letting agent, and the rent payable is more than £100 a week) of any non-resident landlord must

- deduct tax from the landlord's UK rental income, and
- pay the tax to the Inland Revenue.

They must do this for each quarter, that is for the three-month periods ending on 30 June, 30 September, 31 December and 31 March. (The Scheme year runs from 1 April to 31 March.)

Letting agents and tenants do not have to deduct tax from the rental income of a non-resident landlord if the Inland Revenue have told them in writing that the landlord is approved to receive the rental income with no tax deducted.

(Note: This does **not** mean that the rent is exempt from UK tax in the hands of the landlord.)

Page 3 describes when a person is treated as a non-resident landlord for the purposes of the NRL Scheme. Pages 5 - 9 describe how tenants should operate the Scheme. Pages 10 - 15 describe how letting agents should operate the Scheme.

Non-resident landlords can set off the tax deducted from their UK rental income against their own tax bill when they complete their UK Tax Return. They can also claim repayment of any excess tax deducted from their UK rental income.

Non-resident landlords can apply to the Inland Revenue for approval to receive their rental income with no tax deducted. (Note: This does **not** mean that the rent is exempt from UK tax.) In return the Inland Revenue will usually ask the landlord to complete a Self Assessment Tax Return once a year to work out whether he or she has any liability to UK tax.

Pages 16 - 20 explain how non-resident landlords can apply for approval to receive their UK rental income with no tax deducted and what they should do if tax is deducted.

Page 21 describes how you can get more information about the NRL Scheme.

Who are Non-Resident Landlords?

The Non-resident Landlords (NRL) Scheme applies to the UK rental income of persons whose 'usual place of abode' is outside the UK (see below). For convenience, we call these persons non-resident landlords. Landlords can be individuals, companies or trustees.

Where property is let jointly by two or more landlords (for example, a husband and wife) and one or more of them has a usual place of abode outside the UK, the Scheme applies separately to the rental income of each non-resident.

Individuals have a usual place of abode outside the UK if they usually live outside the UK. Individuals are not regarded as having a usual place of abode outside the UK if they are temporarily living outside the UK, for, say, six months or less.

Companies that are incorporated abroad, or have their main office or other place of business abroad, normally have a usual place of abode outside the UK. However, companies that are treated as resident in the UK for tax purposes are not regarded as having a usual place of abode outside the UK. The NRL Scheme does not apply to the rental income of UK branches of non-resident companies where the branch is within the charge to Corporation Tax.

Trustees have a usual place of abode outside the UK if all the trustees have a usual place of abode outside the UK.

Normally, a person that is not resident in the UK for tax purposes will have a usual place of abode outside the UK.

If letting agents or tenants have reason to believe that a landlord has a usual place of abode outside the UK, they should ask the landlord for any information they need to satisfy themselves. Unless they receive information that satisfies them that the landlord does not have a usual place of abode outside the UK, they should start to deduct tax.

Landlords, agents and tenants can get further help from the Centre for Non-Residents. The address and telephone numbers are on page 21.

Tenants

Do I have to operate the Non-resident Landlords (NRL) Scheme?

The Inland Revenue may write to you telling you that you must operate the NRL Scheme. Even if you do not receive a notice from the Inland Revenue you may still have to operate the Scheme, and the following rules apply.

- If you pay £100 or less a week in rent, you do not have to operate the Scheme unless you have been told to do so in writing by the Inland Revenue.
- If you pay rent to a letting agent in the UK, you do not have to operate the Scheme. Letting agents may be professional agents - for example, estate agents, solicitors and accountants - or simply friends and relatives of the landlord who act as letting agents. If you pay rent into a landlord's bank or building society account in the UK, you should not treat that bank or building society as a letting agent unless they also carry out some other service for the landlord which makes them a letting agent.
- If you do not pay rent to a letting agent in the UK, and you pay over £100 a week in rent, you must operate the NRL Scheme. For example, you must operate the Scheme if you pay rent directly to the landlord or to an agent outside the UK. If you pay rent into the landlord's UK bank or building society account, you are normally regarded as paying the rent direct to the landlord and you must operate the Scheme.

What should I do if I think I have to operate the NRL Scheme?

If you are unsure you can get help from the Centre for Non-Residents (CNR). The address and telephone numbers are on page 21.

If you have to operate the NRL Scheme you should write to CNR giving your name, address, Tax Office reference number or National Insurance number (if you have one) and the date you began paying rent to the landlord outside the UK. CNR will then send you Guidance Notes that tell you how to operate the Scheme. You can see these Notes on the Centre for Non-Residents pages of the Inland Revenue website. If you go to www.inlandrevenue.gov.uk/cnr/nr_landlords.htm there will be a hyperlink that takes you to the Notes.

How do I calculate the tax?

You should calculate tax each quarter, at the basic rate, on the rent paid in the quarter. For example, if you pay £2,000 a quarter to the landlord the tax will be £440 (assuming the basic rate of tax is 22%). You can get advice on what the current basic rate is from any Tax Office, Inland Revenue Enquiry Centre or from CNR at the address on page 21.

You should also calculate tax on payments you made in the quarter to someone other than the landlord unless

- that person is a letting agent in the UK
- or
- the payments are a 'deductible expense'.

For example, if the landlord tells you to pay a plumber out of the rent to mend a burst pipe, you would not deduct tax from the payment to the plumber because this is a deductible expense.

Chapter 10 of the Guidance Notes supplied by CNR tell you more about deductible expenses.

How do I pay the tax?

Once you have notified CNR that you have to operate the Scheme, they will arrange for the Inland Revenue Accounts Office to send you a payslip form NRLQ to complete each quarter. You have 30 days from the end of the quarter to do this. The form explains how to make payment to the Accounts Office. If you are a tenant of more than one non-resident landlord, you will have to fill in only one form each quarter showing the total tax due for that quarter.

What if I do not retain sufficient money from the rent to pay the tax due?

You have to pay the tax due under the NRL Scheme even if you do not retain enough money out of rent paid to the non-resident landlord. However, you have the right to get back from the landlord any tax you have to pay under the Scheme. So, for example, if you do not retain sufficient in one quarter to meet your liability, you can take the balance out of the following quarter's rent (in addition to the tax you deduct from that quarter's rent).

When can I pay a non-resident landlord without deducting tax?

Landlords can apply to the Inland Revenue for approval to receive their rent with no tax deducted. Landlords who are Crown Servants apply to their own UK Tax Office (HM Treasury Public Department 1 or the South Wales Area Office). All other landlords apply to CNR. If the Inland Revenue approve the application, they will write to you telling you not to deduct tax.

You should deduct tax unless you have received a written notice from the Inland Revenue telling you not to. Do not stop deducting tax simply because the landlord tells you to do so. If you want to give your landlord an application form, you can get one from CNR. The address and telephone numbers are on page 21. Alternatively, you can download one from Appendix 1 of the Guidance Notes – see page 6.

Do I have to provide information to the Inland Revenue?

If the Inland Revenue have told you in writing not to deduct tax, you do not have to provide a return of information about the rent that you pay without deducting tax.

If you are a tenant who has to deduct tax from your landlord's rent, you have to provide a return of information on form NRLY by 5 July every year for the year ended 31 March. You have to provide, for each landlord separately, details of income, deductible expenses and tax deducted.

The Guidance Notes supplied by CNR tell you more about the information you have to show on the annual return of information. You should keep records to enable you to provide the information asked for on the return.

The Inland Revenue may also ask you to provide other information concerning how you have operated the Scheme.

Will the Inland Revenue check that I am operating the NRL Scheme correctly?

The Inland Revenue's Audit and Pension Schemes Services (APSS) may inspect your records to check that you are operating the Scheme correctly. This means that an auditor might visit you to look at your records and, if necessary, help you improve the way you operate the Scheme. If you do not operate the Scheme correctly you could be liable to tax, interest and penalties.

More details of how the audits are carried out, and the records you should keep, are contained in the Guidance Notes supplied by CNR, see page 6. We have also published a leaflet Code of Practice 4 'Inspection of schemes operated by financial intermediaries' that explains your rights and obligations in relation to the audits. You can get a copy from APSS. The address and telephone numbers are on page 21.

How do I tell the landlord how much tax I have deducted?

By 5 July every year you must give the landlord a certificate showing how much tax you deducted in the year ended 31 March. The Guidance Notes supplied by CNR, see page 6, tell you what details a certificate must contain, but if you did not deduct tax, you do not have to provide a certificate.

Letting Agents

Do I have to operate the Non-resident Landlords (NRL) Scheme?

The Inland Revenue may write to you telling you that you must operate the NRL Scheme. Even if you do not receive a written notice from the Inland Revenue you may still have to operate the Scheme. The following rules apply to decide if you have to operate the Scheme.

- You have to operate the Scheme only if you handle or control UK rental income on behalf of a non-resident landlord. A non-resident landlord is any person who receives UK rental income and has a 'usual place of abode' outside the UK, see page 3.
- If you pass on the rent to a second UK letting agent you do not have to operate the NRL Scheme; it is the second letting agent who has to. However, if the two of you agree, you can elect to operate the Scheme in place of the second agent.
- If you pay rent into the landlord's UK bank or building society account, that is normally treated as paying the rent direct to the landlord, and you must operate the Scheme. You should not treat the bank or building society as a letting agent, unless they also carry out some other service for the landlord which makes them a letting agent.

What should I do if I think I have to operate the NRL Scheme?

If you are unsure you can get help from the Centre for Non-Residents (CNR). The address and telephone numbers are on page 21.

If you have to operate the NRL Scheme you must register with CNR within 30 days of the date on which you first become liable to operate the Scheme. This means you should write to CNR giving your name, address and Tax Office reference number or National Insurance number (if you have one). CNR will then send you Guidance Notes that tell you how to operate the Scheme. You can see these Notes on the Centre for Non-Residents pages of the Inland Revenue website. If you go to www.inlandrevenue.gov.uk/cnr/nr_landlords.htm there will be a hyperlink that takes you to the Notes.

How do I calculate the tax?

You should calculate tax each quarter for each non-resident landlord separately. You should calculate tax at the basic rate on rental income you received in the quarter less any deductible expenses you paid in the quarter. For example, if you receive £2,000 in a quarter and pay £800 for gas and electricity, the tax will be £264 (assuming the basic rate of tax is 22%). This is calculated as follows.

Rent received	£2,000
Less deductible expenses	£ 800
	<u>£1,200</u>
Tax @ 22% =	£ 264

You must also calculate tax on income you did not receive because you told the tenant to pay it to someone else, unless it is a deductible expense. For example, if you are due to receive £2,000 from a tenant and you tell him to pay it into the landlord's bank account, you would calculate tax on the whole £2,000. However, if you are due to receive £2,000 from a tenant and you tell him to pay £100 to a glazier to replace a broken window pane and pay the rest into the landlord's bank account, you would calculate tax on only £1,900 (£2,000 - £100). That is because the £100 is a deductible expense.

Chapter 10 of the Guidance Notes supplied by CNR tells you more about deductible expenses. You can also get more information from the booklet IR150 'Taxation of rents. A guide to property income' which is available from the CNR or any Tax Office or Inland Revenue Enquiry Centre.

How do I pay the tax?

Once you have registered with CNR, they will arrange for the Inland Revenue Accounts Office to send you a payslip form NRLQ to complete each quarter. You have 30 days from the end of the quarter to do this. The form explains how to make payment to the Accounts Office. If you are a letting agent for more than one non-resident landlord, you will have to fill in only one form each quarter showing the total tax due for that quarter.

What if I do not retain sufficient money from the rent to pay the tax due?

You have to pay tax due under the NRL Scheme even if you do not retain enough money out of rent paid to the non-resident landlord. However, you have the right to get back from the landlord any tax you have to pay under the Scheme. So, for example, if you do not retain enough in one quarter to meet your liability, you can take the balance out of the following quarter's rent (in addition to the tax that you deduct from that quarter's rent).

When can I pay a non-resident landlord without deducting tax?

Landlords can apply to the Inland Revenue for approval to receive their rent with no tax deducted. Landlords who are Crown Servants apply to their own UK Tax Office (HMIT Public Department 1 or the South Wales Area Office).

All other landlords apply to CNR. If the Inland Revenue approve the application, they will write to you telling you not to deduct tax.

You should deduct tax unless you have received a written notice from the Inland Revenue telling you not to. Do not stop deducting tax simply because the landlord tells you to do so. If you want to give the landlord an application form, you can get one from CNR. The address and telephone numbers are on page 21. Alternatively, you can download one from Appendix 1 of the Guidance Notes, see page 11.

Do I have to provide information to the Inland Revenue?

Yes. By 5 July every year you have to provide a return of information on form NRLY for the year ended 31 March. You have to show details for each non-resident landlord separately.

For landlords who are not approved to receive rent with no tax deducted, you have to show the gross rental income, allowable expenses and tax you have retained. For landlords who are approved to receive rent with no tax deducted, you need only show the gross rental income.

The Guidance Notes supplied by CNR, see page 11, tell you more about the information you have to show on the annual form NRLY. You should keep records to enable you to provide the information asked for on the return.

The Inland Revenue may also ask you to provide other information concerning how you have operated the NRL Scheme.

Will the Inland Revenue check that I am operating the NRL Scheme correctly?

The Inland Revenue's Audit and Pension Schemes Services (APSS) may inspect your records to check that you are operating the Scheme correctly. This means that an auditor might visit you to look at your records and, if necessary, help you to improve the way you operate the Scheme. If you do not operate the Scheme correctly you could be liable to tax, interest and penalties.

More details of how the audits are carried out, and the records you should keep, are contained in the Guidance Notes supplied by CNR, see page 11. We have also published a leaflet Code of Practice 4 'Inspection of schemes operated by financial intermediaries' that explains your rights and obligations in relation to the audits. You can get a copy from APSS. The address and telephone numbers are on page 21.

How do I tell the landlord how much tax I have deducted?

By 5 July every year you must give the landlord a certificate showing how much tax you deducted in the year ended 31 March. The Guidance Notes supplied by CNR, see page 11, tell you what details a certificate must contain. If you did not deduct tax, you do not have to provide a certificate.

Can branches of a letting agent operate the NRL Scheme separately?

Yes. If you want to split up your business into separate units (for example, branches or regions) for the purposes of the Scheme, you can apply to CNR for approval to do so. The units must have an average of at least five clients each who are non-resident landlords. In addition, CNR needs to be

satisfied that each unit will comply with its obligations under the Scheme. You can get an application form NRL5 from CNR. The address and telephone numbers are on page 21. Alternatively, you can download one from Appendix 3 of the Guidance Notes supplied by CNR, see page 11.

Landlords

Does the Non-resident Landlords (NRL) Scheme apply to my income?

The NRL Scheme applies to your UK rental income if your usual place of abode is outside the UK (see page 3). Under UK law, and in general line with our network of Double Taxation Agreements, rental income arising in the UK is taxable here regardless of where the landlord lives.

However, you can apply to have your rental income paid to you with no tax deducted, and then work out later, by completing a Self Assessment Tax Return, whether you have any UK tax to pay. In calculating the amount of tax due, you are entitled broadly to the same reliefs and allowances to which a UK-resident landlord is entitled.

How can I apply for approval to receive income with no tax deducted?

If you want to apply to receive your UK rental income with no tax deducted, you can get an application form from CNR. The address and telephone numbers are on page 21. Where property is jointly owned, for example, by a husband and wife, each owner must complete their own application form. Joint applications cannot be accepted.

There are different application forms for individuals, companies and trustees. These are, respectively, the NRL1, NRL2 and NRL3. You can apply on the basis that

- your UK tax affairs are up to date, or
- you have never had any UK tax obligations, or

- you do not expect to be liable to UK tax for the year in which you make the application.

In each case you must undertake to comply with all your tax obligations. In particular this means that you must complete any tax returns the Inland Revenue sends you and you must pay your tax on time.

Remember: Inland Revenue approval for your rent to be paid with no tax deducted does not mean that it is exempt income, and you must show the income in any Self Assessment Tax Return that the Inland Revenue sends you.

What if my UK tax affairs are not up to date?

You can still get approval to receive your income with no tax deducted, provided you first bring your tax affairs up to date.

How do I know if I will be liable to UK income tax?

If you are an individual you may be entitled to personal allowances to set against your income. Leaflet IR138 'Living or retiring abroad?' tells you about this. You can get a copy from any Tax Office, Inland Revenue Enquiry Centre or from CNR at the address on page 21.

You will be liable to UK income tax unless your UK income after allowable expenses is less than your personal allowances.

If you are a company or a trustee you will be liable to UK income tax unless your income is less than your allowable expenses. You can get more information about allowable expenses in the booklet IR150 'Taxation of rents. A guide to property income' available from any Tax Office, Inland Revenue Enquiry Centre or CNR.

When can I apply?

At any time. If you are going abroad and you intend to let your property while you are out of the UK you can apply before you leave the UK. If you are already non-resident and you intend to let property in the UK, you can apply before you start to let the property.

Can someone apply on my behalf?

No. Unless you are physically or mentally incapacitated you must make the application yourself. The person who makes the application should be the person who will be liable to tax on any profits from the rental business.

How will the Inland Revenue deal with my application?

The Inland Revenue will approve your application provided that

- the form is complete and correct, and
- they are satisfied you will keep to your undertaking to comply with all your tax obligations.

Your application will be dealt with quickly. CNR will normally give approval for payment with no tax deducted straightaway and check the application later. When they check your application they may ask you for more information.

The application form asks for details of your letting agent, or your tenant if you have no letting agent. When the Inland Revenue have approved your application they will tell your letting agent or tenant not to deduct tax. Your letting agent or tenant must deduct tax until they receive a notice from the Inland Revenue telling them not to.

If the Inland Revenue are not satisfied with the results of the checks they may withdraw approval and tell your letting agent or tenant to start deducting tax.

You have a right of appeal against refusal or withdrawal of approval. Our leaflet IR37 'Appeals against tax, National Insurance contributions, Statutory Sick Pay and Statutory Maternity Pay' will give you more details.

What happens if my letting agent or tenant changes?

You do not need to re-apply, but you will need to tell the Inland Revenue about the change so that they can tell the new letting agent or tenant not to deduct tax.

What happens to tax that is deducted from my rental income?

You can set it off against any UK tax liability you may have. The Inland Revenue will usually send you a Self Assessment Tax Return to complete. If you do not receive a return, and you have liability to UK tax, ask us for one.

The tax retained by your letting agent or tenant is unlikely to match exactly your tax liability. If the tax retained is less than your tax liability you must pay the excess. If the tax retained is greater than your tax liability, you can claim repayment of the excess from the Inland Revenue.

How can I tell how much tax has been deducted from my rental income?

Your agent or tenant must give you a certificate by 5 July each year telling you the amount of tax deducted from your rental income in the year ended 31 March.

Will I also have to pay tax on my UK rental income in my home country?

This will depend on the law of the country in which you live. The UK has Double Taxation Agreements with over 100 countries, and these normally provide that your UK rental income will either be exempt from tax in your home country, or that any UK tax you pay will be allowed as a credit against the tax there. In this way double taxation of the same income is prevented. Even where there is no Agreement, some countries may still give relief for tax charged by another country.

How can I get more help?

If you would like more information about the Non-resident Landlords Scheme, please contact

Inland Revenue
Centre for Non-Residents
St John's House, Merton Road
BOOTLE, Merseyside
England
L69 9BB

Telephone: 0151 472 6208/6209
Minicom: 0151 472 6112
Fax: 0151 472 6067

If you would like more information about the way the Inland Revenue audits the NRL Scheme, please contact

Inland Revenue
Audit and Pension Schemes Services
St John's House, Merton Road
BOOTLE, Merseyside
England
L69 9BB

Telephone: 0151 472 6218
Minicom: 0151 472 6112
Fax: 0151 472 6124

Our service commitment to you

The Inland Revenue and Customs and Excise are committed to giving you the best service we can by

acting fairly and impartially

We

- treat your affairs in strict confidence, within the law
- want you to pay or receive only the right amount due.

communicating effectively with you

We aim to provide

- clear and simple forms and guidance
- accurate and complete information.

providing good quality service

We aim to

- handle your affairs promptly and accurately
- be accessible
- keep your costs to the minimum
- help customers with special needs
- be courteous and professional.

taking responsibility for our service

We

- publish our customer service aims and achievements annually
- want to hear from you if you wish to comment, or complain, so we can improve our service. We advise you how to do this.

We can provide better service if you help us by

- keeping accurate and up-to-date records
- letting us know if your personal or business circumstances change
- giving us correct and complete information paying on time.

Further information on customer service is available at Inland Revenue and Customs and Excise local offices, set out in our Charters, complaint leaflets and Codes of Practice.

These notes are for guidance only and reflect the
tax position at the time of writing.
They do not affect your right of appeal about
your own tax.

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