UK Property Accountants

A Complete Guide to

Annual Tax on Enveloped Dwellings (ATED)



Table of Contents

S.N	TITLE	PAGE
I.	Introduction to Annual Tax on Enveloped Dwellings	01
II.	What Does 'Dwelling' Mean?	02
III.	When to File the ATED Return?	02
IV.	How to Submit ATED Return?	03
V.	When to File an Amended ATED Return?	03
VI.	When is Further Return Required?	04
VII.	What are the ATED Annual Charges?	04
VIII.	Valuation Rule	05
IX.	ATED Reliefs	06
X.	ATED Special Cases	09
XI.	Are there any Fines and Penalties for Late Filing or Incorrect Filing?	12
XII.	Is there any Interest Applicable for Late Payment?	13
XIII.	FAQs	14

Introduction to Annual Tax on Enveloped Dwellings

The Annual Tax on Enveloped Dwellings (ATED) is a taxation scheme established by HM Revenue and Customs (HMRC) in the United Kingdom. It was introduced on 1st April 2013 as part of the Finance Act 2013. ATED specifically targets residential properties held within corporate envelopes, such as companies, partnerships, or collective investment schemes, that are valued at more than £500,000. However, ATED is exempted if the property is held in the capacity of trustee.

BACKGROUND

ATED was instituted in response to concerns about tax avoidance and the use of corporate structures to hold residential properties. HMRC recognised the need to address potential loopholes in taxation, particularly concerning properties held by corporate entities.

OBJECTIVES

- ATED aims to collect taxes from residential properties held within corporate envelopes, ensuring a fair contribution to public finances.
- It discourages the use of corporate structures solely for the purpose of avoiding property-related taxes.
- ATED promotes transparency and accountability in property ownership, especially for high-value dwellings.
- It helps combat tax evasion and ensures compliance with tax obligations among corporate property owners.
- ATED provides a mechanism for the valuation and taxation of residential properties held within corporate entities.



ATED seeks to uphold the integrity of the tax system while promoting fairness and equity in property taxation across corporate entities holding residential dwellings in the United Kingdom.

What Does 'Dwelling' Mean?

A dwelling is any property used or capable of being used as a residence, including gardens, grounds, and any buildings situated within the property. It must have separate utilities and all necessary facilities, such as independent access, to support residential living.

However, dwelling excludes the following:

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

When to File the ATED Return?

The ATED chargeable period runs from 1 April to 31 March. An ATED return must be filed if the ownership conditions for ATED are met at any point during this chargeable period (i.e. if you as a company, partnership with at least a corporate member or Collective Investment Scheme (CIS) own UK residential property worth £500,000).

You usually need to submit the return for:

- New Acquisition : Within 30 days of acquisition, if it comes within the regime after 1st April.
- Newly built property : Within 90 days of the property becoming dwelling for Council tax purpose, or its first occupancy. Whichever is earlier.
- Any other case : 30th April.

How to Submit ATED Return?

To submit your ATED return, you can use the online ATED service. If you own multiple properties and owe tax, you need to submit a separate return for each one. If you're claiming the same relief for more than one property, you only need to complete one Relief Declaration Return.

If you're unable to use the online service, you can contact the ATED helpline to request a paper return.

When to File an Amended ATED Return?

01 **Claiming a new relief:** If your property wasn't eligible for a tax relief when you filed your original return, but is now eligible, you must file an amended return to update HMRC.

02 **Selling or disposing of a property:** If you claimed relief and then sold or disposed of the property, you must inform HMRC by writing a letter to their address (HMRC Stamp Taxes, BX9 1HD, United Kingdom) to let them know you no longer need the relief and that you no longer need to file a Relief Declaration Return.

03 **Correcting mistakes:** If you realise that the information in your original return was incorrect, you need to amend the return.



When is Further Return Required?

In some cases, simply amending your return may not be enough. If your circumstances change and your tax increases (for example, if you can no longer claim a relief), you may need to file a new return. This should be done within 30 days after the end of the chargeable period, or 30 days from the start of the next chargeable period.

For Example,
If the change happened in the period 1 April 2023 to 31 March 2024, you should file it by 30 April 2024.

What are the ATED Annual Charges?

Chargeable amounts for 1 April 2025 to 31 March 2026

Property Value	Annual Charge
More than £500,000 up to £1 million	£4,450
More than £1 million up to £2 million	£9,150
More than £2 million up to £5 million	£31,050
More than £5 million up to £10 million	£72,700
More than £10 million up to £20 million	£145,950
More than £20 million	£292,350

Valuation Rule

Once a property is valued, the valuation applies to the subsequent five chargeable periods. ATED will be calculated based on that market value and the market value will generally remain unchanged for the duration of these five chargeable periods.

Revaluation Date	Applicable Chargeable Periods
1 April 2012	- 2013 to 2014 - 2014 to 2015 - 2015 to 2016 - 2016 to 2017 - 2017 to 2018
1 April 2017	- 2018 to 2019 - 2019 to 2020 - 2020 to 2021 - 2021 to 2022 - 2022 to 2023
1 April 2022	- 2023 to 2024 - 2024 to 2025 - 2025 to 2026 - 2026 to 2027 - 2027 to 2028

The Valuation Rule is tied to specific dates that establish when and how a property should be valued for ATED purposes:

- **1 April 2012:** This is the initial valuation date for properties that were owned on or before this date. When ATED was first introduced, the market value of these properties on 1 April 2012 determined whether the property was subject to the tax.

- **Five-Year Revaluation Cycle:** After the initial valuation, properties must be revalued at every five years. The most recent revaluation date was 1 April 2022, and the next revaluation date is 1 April 2027. Therefore, the valuation as of 1 April 2022 will be used to calculate the ATED liability for the periods 2023/24, 2024/25, 2025/26, 2026/27, and 2027/28 as shown in the table above.

  The five-year cycle ensures that the valuation reflects current market conditions and is crucial for maintaining the accuracy of tax liabilities over time.

- **Acquisition Date:** If the property is purchased after 1 April, the valuation date becomes the date of acquisition, meaning the market value on the day the property is bought determines the ATED liability. If a property is purchased during the five-year revaluation period, it must still be revalued according to the standard five-year cycle, not the remaining years.

For instance,

if the property is acquired on 30 June 2024, then this 2024 valuation will be used for 2024/25,2025/26,2026/27,2027/28. Therefore, next revaluation will still occur in 2027, not 2029.

Revaluation Triggers:

- **Major Renovations or Sales:** If significant renovations or a sale of part of the property occurs, a revaluation may be necessary before the five-year mark.
- **Substantial Transactions:** If a property is bought or sold for £40,000 or more, a revaluation is needed. For transactions between related parties (like family members or businesses), the market value is used to prevent under-reporting.

You can either work out the value yourself or can use a professional valuer.

ATED Reliefs

Property Rental Businesses

Relief from ATED is available if a property is part of a qualifying property rental business, either by generating rental income or by taking steps to rent it out without delay. The property must be used for commercial purposes with the intention of making a profit. If the property is not currently rented, relief can still apply if actions are being taken to rent it, such as advertising or making repairs. Any delay in renting must be justified by commercial reasons (e.g., repairs or market conditions). Additionally, If a property previously met the conditions for property rental business relief but the rental business has ceased and the property is now unoccupied, relief from ATED may still apply in certain situations. This includes cases where the property is to be sold without undue delay, or if the property is to be demolished promptly with plans to build a new dwelling on the same site, which will be used in a way that qualifies for ATED relief. Similarly, if the property is being converted into a new dwelling that will be used in a way that qualifies for relief, or if the property is being converted into a non-residential building without undue delay, ATED relief may still be available.



2 Dwellings open to the public

A property is eligible for relief if it is open to the public for at least 28 days per year. This exemption ensures that properties serving a cultural or tourism purpose do not fall under the ATED charge. The owner must keep records proving public access, such as visitor logs or promotional materials.

Property Developers

Relief from ATED may be claimed when a single-dwelling interest is held by a person engaged in a property development trade (the 'property developer') and is intended for development and resale as part of that trade. While the interest must be held exclusively for this purpose, the relief remains available under these provisions (rather than any other relief provisions) even if the property is rented out before resale, provided it is still held for the purposes of the property development trade.

3

4 Property Traders

Property traders can claim ATED relief if they own properties for resale in the normal course of business. A genuine property trading business involves buying and selling homes commercially for profit. However, merely buying a property and waiting for its value to increase over time is not enough to qualify as a trading business. This is considered investment and does not qualify for the relief.

Financial Institutions

Financial institutions can qualify for tax relief if they take ownership of a property due to an unpaid loan. To be eligible, the institution must be engaged in lending money, the property must be acquired through lending activities such as repossession, and the institution must intend to sell the property quickly.

5

6 Occupation by certain Employees and Partners

A business may qualify for tax relief from ATED if it owns a property used to provide housing for employees or partners. To qualify, the property must meet certain conditions: the person must have legal rights to the property, the business must be run for profit, the property must be used for housing, and it must serve a clear business purpose. The relief can still apply if the employee's or partner's family uses the property.

An employee qualifies unless they own 10% or more of the business's profits, the company owning the property, or the property itself.

7 Farmhouse

A farmhouse may qualify for tax relief if it is part of farming land, owned by the farmer or a connected person, and occupied by a farm worker, former long-serving farm worker, or their spouse. The farming must be commercially profitable, and the farm worker must work at least 20 hours a week in farming tasks or farm management. A former long-serving farm worker must have worked for at least 3 years consecutively or 3 years within 5 years.

8 Owned by a Registered Provider of Social Housing

Properties owned by registered social housing providers or qualifying housing co-operatives are exempt from ATED. This ensures that housing associations and non-profit organisations providing affordable housing are not subject to the tax, supporting social welfare and public housing initiatives.



ATED Special Cases:

Multiple Dwelling Implications

Under ATED, properties with multiple residential units are subject to specific rules. The key idea is to treat each individual dwelling or residential unit separately for tax purposes, known as a "chargeable interest." To determine if multiple units are separate dwellings for ATED, several factors are considered:

Physical Separation

Each unit must have its own entrance and utilities.

Planning Permission

How the property is classified and used legally matters.

Each unit is valued separately, and if any unit's value exceeds £500,000, it will be taxed.

If two dwellings are on the same land, they may be considered one property for tax purposes if one cannot be accessed without passing through the other (e.g., a cottage accessed via the main house's driveway). For two homes to be separate, they must have their own access to the outside, like a private driveway or right of way.

When multiple units are connected by private access (like an internal door or corridor), they may be treated as one dwelling for ATED if they cannot be easily combined into a single property. Common ownership of the dwellings is also required.

Exemptions from ATED may apply if one of the dwellings qualifies for relief, allowing them to remain separate for tax purposes.



Mixed-Use Properties

For mixed-use properties (those with both residential and non-residential parts), ATED only applies to the residential portion of the property. The non-residential areas, such as shops or offices, are excluded from ATED.

Key Steps in Applying ATED to Mixed-Use Properties:

1

Identifying Residential and Non-Residential Parts:

- The residential part includes areas like bedrooms, kitchens, and bathrooms.
- The non-residential part includes areas like shops or offices.

2

Valuing the Property

- The total value of the property is assessed first.
- The value is then split between the residential and non-residential parts.

3

Threshold Consideration:

- ATED only applies to the residential part if its value exceeds £500,000.

For Example,

If a property consists of both residential and non-residential components, and the total market value is £1.1 million, with the residential portion valued at £800,000, the ATED will only apply to the residential portion of £800,000. In this case, the ATED annual charge will be calculated based on the £500,000 to £1 million valuation band, rather than the total market value of the property.

Related Person: Market Rent

Under ATED, the relationship between the property owner (typically a company) and the tenant plays a key role in determining whether the property qualifies for tax relief. Here's a breakdown:

A related person (or non-qualifying person) is someone who is closely connected with the property owner. This includes individuals with personal, financial, or business links to the chargeable entity, such as family members, partners, or associates involved in the ownership structure.

A non-qualifying individual means:

- An individual who is entitled to an interest
- An individual ('a connected person') who is connected with a person entitled to the interest
- If a person is entitled to the interest as a member of a partnership, any person who is connected with a partner in that partnership
- An individual (the 'relevant settlor') who is a settlor of a trust of which a trustee is connected with a person entitled to the interest
- The spouse or civil partner of a connected person or a relevant settlor
- A relative of a connected person or of a relevant settlor, or the spouse or civil partner of a relative of a connected person or of a relevant settlor
- A relative of the spouse or civil partner of a connected person or of a relevant settlor
- The spouse or civil partner of a person
- An individual who is a major participant in a collective investment scheme or is connected with a major participant in a relevant collective investment scheme

If the property is rented to a related person, the property does not qualify for ATED relief, even if the rent is set at market rates. This is because the chargeable entity is not holding the property with the intention of carrying out the property rental business.In this case, the full ATED tax charge applies.

For Example:

A company rents a property valued at £2 million to its director at market rent. Even though the rent is market rate, ATED relief doesn't apply because the shareholder is related to the company. The company still faces the full ATED charge.



Are there any Fines and Penalties for Late Filing or Incorrect Filing?

Yes, HMRC will charge fines and penalties in following situations:

Penalty for Late Filing

When a return is filed late, following penalties may be charged:

- An initial penalty of £100 on the day after the date your tax return or document is due.
- Daily penalties of £10 per day for 90 days if your return or document is 3 months late.
- A 'further penalty' of £300 or 5% of our estimate of your liability to tax (whichever is the higher) if your tax return or document is 6 months late.
- A second 'further penalty' of £300 or 5% of our estimate of your liability to tax, (whichever is the higher) after your tax return or document is 12 months late.

If you have been late for more than 12 months and still have not heard from HMRC, they may charge you all the penalties together for failing to file your return on time.

Penalty for Non-Payment of Tax

When ATED is not paid on time, whether partly or in full, the penalties charged are as follows:

- any initial penalty: 5% on tax unpaid at the penalty date
- any 5 month further penalty: 5% on tax unpaid 5 months after the penalty date, and
- any 11 month further penalty: 5% on tax unpaid 11 months after the penalty date.

Penalty for Inaccurate Return

If an inaccurate ATED Return has been filed, HMRC will charge a penalty if the error is:

- because of a lack of 'reasonable care;'
- deliberate — such as intentionally sending incorrect information;
- deliberate and concealed — for example, intentionally sending incorrect information and taking steps to hide the error.

The penalty percentage falls within one of six ranges, determined by the type of behaviour and whether the disclosure was 'prompted' or 'unprompted.' The table below outlines these six penalty ranges.

Duration	Unprompted disclosure	Prompted disclosure
Reasonable care	No penalty	No penalty
Careless	0% to 30%	15% to 30%
Deliberate	20% to 70%	35% to 70%
Deliberate and concealed	30% to 100%	50% to 100%

Is there any Interest Applicable for Late Payment?

Failure to pay the ATED amount on time not only results in penalties but also incurs interest on the outstanding tax. This interest will continue to accumulate until the full amount is paid.

Late payment interest is calculated at the base rate plus 2.5%. The Current interest rate from 25 February 2025 is 7.00%, though this may fluctuate depending on changes in the base rate.



FAQs

1 What happens when a non-qualifying individual occupies the residential property?

When non-qualifying individuals occupy a property, it may trigger the look back and look forward provisions. If these restrictions come into effect, it can lead to the withdrawal or clawback of ATED relief.

2 Is it mandatory for the properties to be valued by a professional valuer?

Although there is no requirement for the property to be valued by a professional valuer, valuations must be on an open-market willing buyer, willing seller basis and be a specific amount. Furthermore, the valuation of the property must be in pounds sterling.

3 Does the ATED return need to be filed when reliefs are claimed?

When a property qualifies for relief, resulting in no liability for ATED, the Relief Declaration Return must be completed. If multiple reliefs are being claimed for a property, separate relief declaration forms must be submitted for each type of relief being claimed.

4 How should interim relief be claimed?

Interim Relief is available where ATED is charged in respect of a single-dwelling interest for a chargeable period. Interim relief can be claimed in an ATED return, or in an amended ATED return, reflecting the facts at the date that the return is made and on the assumption that those facts won't change.

5 How often should the property be revalued for ATED purposes?

In most cases, properties must be revalued on each 1st April falling 5 years, after 1st April 2012. If the property is acquired in the current year, the same valuation can typically be used. However, a substantial acquisition or disposal will also result in a revaluation event for the ATED purposes. Generally, an acquisition becomes a substantial acquisition if the chargeable consideration is £40,000 or more.

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Let's Talk

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