

# FINANCE ACT 2014

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## EXPLANATORY NOTES

### INTRODUCTION

#### *Sections 109 - 110: Annual Tax on Enveloped Dwellings*

##### Summary

1. These sections extend the Annual Tax on Enveloped Dwellings. From 1 April 2015 there will be a new charge of £7,000 for properties worth more than £1m and up to £2m that are held in corporate structures. From 1 April 2016 there will be an additional band for properties worth more than £500,000 and up to £1m with an annual charge of £3,500.

##### Details of the Sections

#### *Section 109: ATED Reduction in Threshold from 1 April 2015*

2. Subsection (1) provides for an amendment to Part 3 of Finance Act 2013 (Annual Tax on Enveloped Dwellings).
3. Subsection (2) amends the threshold from more than £2 million to more than £1 million.
4. Subsection (3) specifies the annual chargeable amount for residential properties valued at more than £1 million but not more than £2 million as £7,000.
5. Subsection (4) provides for subsections (2) and (3) to come into effect for the chargeable periods beginning on or after 1 April 2015.
6. Subsections (5) to (7) provide for a transitional rule for those persons falling within the “more than £1 million but not more than £2 million” band so that returns for the chargeable period 1 April 2015 to 31 March 2016 must be filed by 1 October 2015 and payment made by 31 October 2015.

#### *Section 110: ATED Further Reduction in Threshold from 1 April 2016*

7. Subsection (1) provides for an amendment to Part 3 of Finance Act 2013 (Annual Tax on Enveloped Dwellings).
8. Subsection (2) amends the threshold from more than £1 million to more than £500,000
9. Subsection (3) specifies the annual chargeable amount for residential properties valued at more than £500,000 but not more than £1 million as £3,500.
10. Subsection (4) provides for subsections (2) and (3) to come into effect for the chargeable periods beginning on or after 1 April 2016.

##### Background Note

11. The Annual Tax on Enveloped Dwellings (ATED) was introduced in Finance Act 2013 and came into effect on 1 April 2013. It is payable by companies, partnerships

*These notes refer to the Finance Act 2014 (c.26)  
which received Royal Assent on 17 July 2014*

with a corporate member and collective investments schemes that own interests in UK residential property valued at more than £2 million.

12. Most residential properties are owned directly by individuals. But in some cases they may be owned by a company, a partnership with a corporate member or other collective investment vehicle. In these circumstances the dwelling is said to be 'enveloped' because the ownership sits within a corporate 'wrapper' or 'envelope'.
13. ATED is an annual tax and is charged in respect of "chargeable periods" running from 1 April to 31 March. The amount of tax charged is based on the value of the dwelling as at 1 April 2012. Thereafter revaluation occurs at each 1 April at intervals of 5 years. Where a dwelling is acquired the valuation date is the effective date of acquisition. Where there is a substantial disposal of part (but not the whole) interest, the valuation date is the date of disposal.
14. Returns and payments are usually due by 30 April in the chargeable period. The amount of tax charged is calculated using a banding system based on the value of the property. The charges are increased in line with the previous September's Consumer Prices Index (CPI) (rounded down to the nearest £50).
15. There are a number of reliefs available, for example for the purposes of letting, trading or property development. There are also a number of exemptions from the tax, most significantly, charitable companies using the dwelling for charitable purposes.
16. Budget 2014 announced a reduction in the threshold from £2 million to £500,000 to be introduced over 2 years. From 1 April 2015 a new band will come into effect for properties with a value greater than £1 million but not more than £2m million with an annual charge of £7,000. For those persons who fall into this new threshold there is a transitional rule where returns will be due by 1 October 2015 and payment by 31 October 2015. From 1 April 2016 a further new band will come into effect for properties with a value greater than £500,000 but not more than £1 million with an annual charge of £3,500. For future years these charges will be indexed in line with the previous September CPI.
17. This section and the related changes to the 15% SDLT threshold (section 111) are part of a package of measures intended to tackle tax avoidance and to ensure that those wrapping residential property into corporate and other 'envelopes', and not using them for commercial purposes, such as renting them out, pay their fair share of tax.