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Expatriate accommodation costs in the UK

One of the most significant costs for Japanese companies seconding employees to the UK relates to the provision of accommodation. This is not just a consequence of the relatively high property prices, particularly in the South East of England, but also because the many expatriates are either tax protected or equalized by their employer.

The most common scenario is for the employer to enter into a short term tenancy agreement with the landlord of approximately twelve months and pay a monthly rental. Over the years most of the planning arrangements to mitigate the tax liability arising have been blocked by changes in legislation; however some still remain.

This article will consider two arrangements which reduce the taxation burden significantly.

The first example can be applied in the case of short term secondments. The tax legislation in the UK recognises that where an employee is required to work away from his main place of work on a temporary basis the costs of travel and subsistence should not create a taxable benefit for that employee. Thus for example when an employee whose main place of work is London is required by his employer to work at an office in Manchester for a period of five months, his costs of travel and subsistence, which includes accommodation is not a taxable benefit. The cost of accommodation in this case must be commensurate with the employee's requirements. For example the cost of a four bedroom house might be considered excessive if provided for a single person but would not for a married individual with three children. A temporary basis is considered to be for a period of less than twenty four months.

This rule applies equally for an employee who is employed outside the UK and is seconded on a temporary basis, ie for a period expected to last for less than twenty four months, to work in the UK. In such a case the costs of accommodation are treated as subsistence which is not a taxable benefit. The cost saving can be dramatic, for example with a rent of £1,500 per month the tax saving for an eighteen month period for a tax protected employee could be £12,000. It must be emphasised that this only applies to secondments which are intended to last no more than twenty four months at the outset. If circumstances change during the secondment so that the expatriate is expected to stay at the location for more than twenty four months the taxation position changes so from the date of the change, the accommodation costs will become a taxable benefit. However there is no retrospective adjustment.



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In the case of longer term secondments an employer might consider entering into a short term lease arrangement with the landlord rather than short term rental arrangement.

This type of arrangement can best be explained as an agreement between a company and landlord where the company agrees to pay a lump sum or “premium” to the landlord in return for the grant of a lease. The period for which the lease is granted can be short, although it is generally recommended that the minimum period is three years.

In these circumstances the taxable benefit is not based on the premium paid but on the Gross Rateable Value (GRV). This value for properties in the London area is usually between £1,000 and £3,000. The GRV is based on a previous rating system in the UK. It can normally be ascertained from the landlord or a surveyor.

In addition, if the premium paid for the lease is over £75,000 there is a second calculation to be made in arriving at the taxable benefit. This additional charge is based on the Inland Revenue’s official rate of interest at the beginning of the tax year.

The savings arise because premium payments are treated in a different way than rent payments for income tax purposes. For corporation tax purposes, a proportion of the premium is allowable as a deduction in the company accounts.

Before implementing such an arrangement it is obviously necessary to consider individual circumstances and the type of accommodation to be provided. There are, of course, a number of practical considerations to be taken into account concerning the flexibility of this type of arrangement. Discussions will have to be undertaken with a particular landlord who may require advice on his own situation and how the arrangements will affect him. It is also necessary to ensure that all legal documentation is correctly set up.

The potential tax savings can be significant and two examples of the amounts involved are shown below.



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Example 1

Assumptions

- Tenancy agreement covering a three-year period with rent payable of £24,000 per year (£72,000 over the period).
- Lease covering a three-year period with premium payable of £70,500 plus a negligible rent.
- The Gross Rateable Value of the property is £1,200.
- The employee's marginal rate of tax is 40%.

	£	One Year £	Three Years £
<u>1) Tax on Rent:</u> (40% x 100/60 (66.7%))		<u>16,000</u>	<u>48,000</u>
<u>2) Tax on Short Lease Arrangement</u>			
a) Gross Rateable Value	1,200		
b) Cost of Lease Premium	£70,000		
Less : Exempt Portion	<u>£75,000</u>		
Excess	<u>£ NIL</u>		
Excess at official rate of Interest	NIL		
Taxable Benefit	<u>£1,200</u>		
Tax chargeable (40% x 100/60)		<u>800</u>	<u>2,400</u>
<u>3) Tax Saving 1 Less 3</u>		<u>£15,200</u>	<u>£45,600</u>



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Accommodation Benefit - Example 2

Assumptions

- Tenancy agreement covering a three-year period with rent payable of £30,000 per year (£90,000 over the period).
- Lease covering a three-year period with premium payable of £87,000 plus a negligible rent.
- The Gross Rateable Value of the property is £1,500.
- The employee's marginal rate of tax is 40%.
- Official rate of interest 6.25% throughout the period.

	£	One Year £	Three Years £
1) Tax on Rent: (40% x 100/60 (66.7%))		20,000	60,000
2) Tax on Short Lease Arrangement			
a) Gross Rateable Value	1,500		
b) Cost of Lease Premium	£87,000		
Less : Exempt Portion	<u>£75,000</u>		
Excess	<u>£12,000</u>		
Excess £12,000 @ 6.25%	750		
Taxable Benefit	<u>£2,250</u>		
Tax chargeable (40% x 100/60)		<u>1,500</u>	<u>4,500</u>
3) Tax Saving 1 Less 3		<u>£18,500</u>	<u>£55,500</u>