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Property investors find favour in UK

By Tanya Powley

The UK is one of the cheapest tax locations in the world for professional real estate investors to build and sell a house – and for investing in residential buy-to-let. But it is less competitive when it comes to commercial property.

The total tax taken from investors looking to buy land, build a home and then sell it in the UK amounts to just 6.39 per cent, according to Taxand, the global tax advisory group, which looked at property taxes across 23 countries.

The group looked at taxes for residential property, buy-to-let and commercial property and worked out its figures by taking into account VAT – or its local equivalent – corporate income tax and property taxes, based on 2010 rates.

While Malaysia had the lowest total tax take for building and selling a residential house, the UK was cheaper than the US (13.87 per cent) and Brazil (14.12 per cent). France was the third most expensive country at 22.03 per cent but Romania tops the table at 22.51 per cent.

Taxand based the calculations on plot of land of 1,000 square metres, with the house constructed to the size of 150 sq m.

Kevin Hindley of Taxand says many of the firm's clients are interested in financing property development.

"Pure taxes are never going to drive anyone's decision to invest in one country over another as they have to like the investment proposition," says Keith O'Donnell, head of property at the tax group. "However, most investors will like to know what are the approximate tax rates in different countries when they go into it."

The UK also fares attractively from a tax perspective for investors in residential buy-to-let. The UK has the second cheapest tax take at 22 per cent, just behind Cyprus, which charges 19 per cent, according to Taxand.

Popular destinations such as Spain, France and the US are among the 10 most expensive tax locations for buy-to-let at 36.32 per cent, 37 per cent and 39 per cent respectively. James Moss of Curzon Investment Property says the UK's low taxation levels will help encourage UK and overseas investors into this sector.

China emerges as the most expensive country for taxing buy-to-let investors. In fact, total tax taken went up from 45.23 per cent in 2009 to 50 per cent last year. "In many other countries, property and investing in property is taxed in such a way to implement social and economic policy," says Moss. "The Chinese government is trying to control their booming and highly speculative housing market this way."

"As governments combating the global economic downturn continue to bolster their total revenues through increased tax on residential property, investors need to carefully consider where their next buy-to-let purchases will be, given these greatly varying rates across the world," adds O'Donnell.

However, the research shows that the UK is a far less attractive tax location when it comes to investing in a commercial building. The lowest rate of tax for commercial rental income was in Finland, with just 8.99 per cent taken by the taxman. Cyprus and Switzerland have low rental taxes of 11.4 per cent and 13.28 per cent respectively.

In comparison, the UK was in the top five countries that charge the most tax – with a rate of 33.80 per cent, just below the US at 41.17 per cent and Canada at 53.85 per cent.