

Tax haven ownership of UK property might cost Â£2 bil...

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The [FT reports this morning that](#):

At least £122bn of property in England and Wales is held through companies in offshore tax havens where ownership is difficult to trace, a Financial Times analysis of Land Registry data has found.

It adds:

Nearly two out of three of the 91,248 foreign-company owned properties in England and Wales are held via the British Virgin Islands and Channel Island structures. Just under two-thirds of the offshore-owned property by value is in Greater London, with 27 per cent in the City of Westminster. The Land Registry data do not allow a breakdown between residential and commercial property.

And also notes that:

The total value of offshore ownership of property is likely to be considerably higher than £122bn. Limitations on how the Land Registry holds the data mean the true picture is difficult to ascertain. More than a third of the data provided by the Land Registry do not contain a purchase price.

What the FT does not estimate is the cost of this. At least three taxes are potentially being avoided here. They are stamp duty, inheritance tax and capital gains tax. A fourth could be income tax if the properties are being let and are artificially loaded with debt to avoid payment, but I am going to ignore this last issue and look at the first three alone.

First, it is highly likely that there is 'churn' in the ownership of the portfolio of at least 91,000 properties to which this data refers. It would be very surprising if average ownership periods exceeded 10 years given the nature of the ownership, the fact that they have been put in tax haven ownership to avoid stamp duty on sale and the nature of this market. This activity has now gone on for some time. Because most of the properties are in greater London they are likely (but not certain) to be residential.

Recent tax charges to discourage this activity does not have appeared to deter the offshore ownership pattern. The average property is worth at least £1.3 million, and probably rather more by now since this will be historic data. Assuming that prices have not inflated but that property is domestic a 5% stamp duty rate would be appropriate. If 9,100 properties changed hands a year that is at least £610 million of stamp duty avoided, and probably somewhat more due to price increases over time not allowed for in the calculation. If average prices have inflated since purchase as I note below when looking at capital gains tax it is likely the loss might be £900 million a year. I will use the lower estimate.

One of the attractions of holding property offshore as opposed to through a UK company (which is, of course, possible to avoid stamp duty on transfer) is that for the non-dom this avoids inheritance tax on an asset located in the UK. So how many of the owners of these properties die a year? I generally assume wealth is owned by older people and so that it is fair to assume 1/30 of all wealth might be subject to an inheritance tax charge in any year. In this group wealth may be more widely dispersed. In that case a rate of 1/40 of all property being subject to inheritance tax could be a more appropriate estimate. In that case about £3 billion of property may miss a charge at a rate of 40%. That is £1.2 billion avoided.

And then there is capital gain tax. If a ten year ownership period of residential property in London is assumed and this is prime central London housing then [estate agents John D Wood](#) suggest that London prices have almost exactly doubled from March 2004 to March 2014. That means that if property that cost £12.2 billion is sold each year on average the sale price could be double that. However, in reality, the purchase price of property held for ten years would, of course, on average be lower than the average of the sample as the whole for reason of that price increase too. On average the portfolio would have been bought in 2009, since when the gain has been about 50% of cost price. In that case, to be cautious, I will assume the average gain on the portfolio likely to be sold was 50% of declared average purchase price, or about £6.1 billion in this case.

Not all this sum would have been subject to CGT: some of these properties are subject to principal private residence relief, but some will not and some will be let. Assuming just one third are subject to CGT, and that seems fair given these two factors, that would leave gains avoided on a little over £2 billion that might have been payable at 28%. That is £510 million avoided.

This leaves £2.3 billion of tax avoided. No wonder in that case that there has been a surprising willingness amongst owners of these properties to pay the new 'envelope' tax charge introduced by George Osborne that has yielded much more than expected, [with over £200 million expected to be paid this year](#). The avoidance activity still pays handsomely with a likely net return of more than £2 billion a year, at cost to the rest of us in the UK.