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# CAPITAL GAINS – TAX ON PROPERTY - INFORMATION FOR CLIENTS Walsh West Certified Chartered Accountants 2021

## What is Capital Gains tax on property?

Capital gains tax is payable on the sale of second homes and buy-to-let property. Find out how much CGT you'll pay.

**Do I pay capital gains tax on property?**

If you sell a property in the UK, you may need to pay capital gains tax (CGT) on the profits you make.

You generally won't need to pay the tax when selling your main home.

However, you will usually face a CGT bill when selling a buy-to-let property or second home. You may also need to pay CGT if your home is partly used as a business premises, or you lease out part of your property.

**CGT rates on property**

In the UK, you pay higher rates of CGT on property than other assets.

Basic-rate taxpayers pay 18% on gains they make when selling property, while higher and additional-rate taxpayers pay 28%.

With other assets, the basic-rate of CGT is 10%, and the higher-rate is 20%.

Bear in mind that any capital gains will be included when working out your tax status for the year, and may push you into a higher bracket.

All taxpayers have an annual CGT allowance, meaning they can earn a certain amount tax-free.

In 2021-22 you can make tax-free capital gains of up to £12,300 - the same as 2020-21. Couples who jointly own assets can combine this allowance, potentially allowing a gain of £24,600.

You're not allowed to carry this forward, so if you don't use it, you'll lose it.

**How much CGT will I pay?**

As the name suggests, CGT is only charged on the gains you make, rather than the amount you sell the property for.

To work out your gain, deduct the amount you originally bought the property for from the sales price.

Then deduct any legitimate costs involved with buying and selling, such as broker fees, stamp duty, and improvements to the property while you owned it.

You can also offset losses when selling other assets, and these can be carried forward indefinitely. As such, if you have a property portfolio, and make, say, a £50,000 loss when selling one property, that will increase the tax-free gain you can make when selling another.

You claim your losses via your self-assessment tax return, or by calling HMRC. You can claim losses up to four years after they were incurred.

For any taxable gains above the tax-free allowance of £12,300 in 2021-22 (the same as in 2020-21), you'll pay the CGT property rates.

**When is capital gains tax due?**

Anyone who makes a taxable capital gain from UK residential property in the 2021-22 tax year will have to pay the tax owed within 30 days of the completion of the sale or disposal. You'll do this by submitting a 'residential property return' and making a payment on account.

You used to be able to wait until you submitted your tax return to inform HMRC of a sale, but that changed from the 2020-21 tax year.

**What can I deduct from my taxable gain?**

You're allowed to deduct certain costs involved with buying and selling property from your gain when working out your CGT bill.

These include:

- solicitors and estate agents' fees
- stamp duty when buying the property.

Costs involved with improving assets, such as paying for an extension, can also be taken into account when working out your taxable gain. However, you're not allowed to deduct costs involved with the upkeep of a property. You're also not allowed to deduct mortgage interest either (though that can reduce the tax you pay on rental income).

**Example of selling a second home**

Someone is selling a second home in England for £220,000 after buying it 10 years ago for £120,000. Their taxable income for the year is £25,000.

They've had no work done on the property, but paid £1,000 stamp duty when they bought it, as well as £2,000 for solicitor's fees. They will also pay £4,000 in solicitors and estate agent fees when they sell.

Their capital gain is the increase in the property value, or £100,000. After deducting the costs of buying and selling, this comes down to £93,000.

They have no other gains or losses, so can use the full £12,300 CGT allowance against the gain. CGT will be due on the remaining £81,000.

They'll pay the 18% basic-rate CGT on £25,270 of this gain. This is because the higher-rate threshold is £50,270, but they've used £25,000 of this on their income for the year.

They'll then pay 28% higher rate on the rest of their gain (£55,730).

- gain = £100,000 (£220,000, less £120,000 purchase price)
- gain after costs = £93,000 (£100,000, less £7,000 stamp duty, estate agent and solicitors' fees)
- gain after CGT tax-free allowance = £81,000
- CGT charged at basic = £4,548.60 (£25,000 at 18%)
- CGT charged at higher rate = £15,604.40 (£55,730 at 28%)
- total capital gains bill = £20,153 Find out more: selling a buy-to-let property

**Capital gains tax on your main home**

In most cases, you won't need to pay CGT when selling the property you live in, because you will be entitled to 'private residence relief'.

You will not need to pay capital gains tax for the time a property was your main residence, plus the past nine months of ownership (even if you were not living in the property during those nine months).

People with a disability or those who move into a care home can claim for up to the past 36 months of ownership.

That said, you may have a capital gains tax bill to pay if you:

- develop your home, for example, by converting part of it into flats
- sell part of your garden and your total plot, including the area you're selling, is more than half a hectare (1.2 acres)
- use part of your home exclusively for business

- let out all or part of your home - this doesn't include having a single lodger if you need are living in the property too
- moved out of your property 18 months or more ago - to move into a partner's home, for example
- bought a home for the purpose of renovating it and selling it on.

**Which property is my main home?**

If you use more than one home, you can nominate which will be tax-free. It doesn't have to be the one where you live most of the time.

Generally, it makes sense to nominate the one expected to make the largest gain when you come to sell it. You have two years from when you get a new home to make the nomination.

Married couples and civil partners can have only one main home between them, but unmarried couples can each nominate a different home.

Remember, you don't get tax relief if you bought your home just to sell it on and make a gain.

How does letting relief work with CGT?

If you have let out either part or all of your home, a proportion of any gain when you sell it could be taxable. But if you used to live in the property, you may be able to claim letting relief, which will reduce your capital gains tax bill.

Letting relief doesn't apply to buy-to-let investors who let out their properties and never live in them.

For 2020-21 tax returns, lettings relief will only be available for people who were in shared occupancy with their tenant/tenants.

Currently, the amount of letting relief you can claim will be the lowest of either:

- the gain you receive from the letting proportion of the home or
- the amount of private residence relief you can claim or
- £40,000.

It's important to note that you can't claim private residence relief and letting relief for the same period. This means if you are letting the property out when you come to sell, the past 18 months of ownership qualify for private residence relief rather than letting relief.

The exact amount of private residence relief and letting relief you can get depends on the amount you sell the home for.

**How letting relief works in 2021-22**

Letting relief can feel confusing. This example illustrates how to work out capital gains tax when you sell a home you have been letting out.

John has owned a property for 20 years (240 months) and has decided to sell up.

- He lived in the property full time for 12 years (144 months)
- He then used it as a second home for four years (48 months)
- He then let it out to a tenant for four years (48 months)
- He has no spouse or civil partner.

Here's how John works out his capital gains tax bill for a sale in 2021-22.

| | |
|---|---|
| Profit when John sells | £100,000 |
| Private-residence relief (PRR) | 144 months (time it was John's main residence) + 18 months = 162 months<br>162 months out of 240 months = 67.5%<br>67.5% of £100,000 = £67,500 of profit covered by PRR |
| Letting relief | 30 months (48 months John let it out - 18 months covered by PRR)<br>30 months out of 240 months = 12.5%<br>12.5% of £100,000 = £12,500 of profit covered by letting relief |
| Amount of profit - PRR and letting relief | £100,000 - £67,500 - £12,500 = £20,000 |
| CGT allowance 2021-22 | £12,300 |
| Taxable amount | £20,000 - £12,300 = £7,700 |
| TOTAL - if John is a basic-rate taxpayer | 18% of £7,700 = £1,386 CGT due |
| TOTAL - If John is a higher-rate taxpayer | 28% of £7,700 = £2,156 CGT due |

**CGT on gifted and inherited homes**

Your parents or relatives may want you eventually to have their home. If anyone leaves their home to you in their will, you inherit the property at its market value at the time of death.

There is no capital gains tax payable on death, but the value of the home will be included in the estate (defined as all assets and property minus debts and funeral expenses) and inheritance tax may be payable instead.

If you sell the property without having made it your own home, there could be CGT to pay.

This will be based on the increase in value between the date of death and the date when you sell, minus any associated selling costs.

If you're given the home during the owner's lifetime, while they are still living there, this is called a gift with reservation.

Essentially this means it still counts for inheritance tax purposes when the gift giver passes away.

You may have to pay CGT when you eventually sell the home, and the amount will be based on the increase in value between the date they gave you the property (not the date of their death) and the date you sell.

This is the case even though there may also be inheritance tax to pay on the home at the time of death.

**Example of CGT on inherited homes**

These tables explain what would happen if you inherited your father's home. The first table explains what would happen if it was gifted on death.

The second table explains what would happen if you were given the home 10 years before your father's death, and he continued to live there until he died.

| Example 1 | Amount |
|---|---|
| Value at date of death | £200,000 |
| Sold on for | £205,000 |
| Selling costs | £3,000 |
| Gain | £205,000 - £200,000 - £3,000 = £2,000 |
| CGT allowance | £12,300 for 2021-22, therefore no CGT is due |

| Example 2 | Amount |
|---|---|
| Value at date of death | £140,000 |
| Sold on for | £205,000 |
| Selling costs | £3,000 |
| Gain | £205,000 - £140,000 - £3,000 = £62,000 |
| CGT allowance | £12,300 for 2021-22 |
| Taxable gain | £62,000 - £12,300 = £49,700 |
| Tax bill if you're a basic-rate taxpayer | 18% on the gain that takes you to the higher-rate threshold,<br>28% on the amount above this |
| Tax bill if you're a higher-rate taxpayer | 28% on gain = 0.28 x £49,700 = £13,916 CGT due |

**Which other taxes may be due on UK property?**

CGT is just one of the taxes that is levied on properties in the UK, charged when you come to sell it.

When you buy a home, you will likely need to pay stamp duty on the purchase price. The amount depends on whether it is your main home or a second home or buy to let investment.

Residents also need to pay council tax, with the amount depending on the property size, location, and a few other factors.

If you are letting out a property, you'll probably need to pay income tax on the rent you get.

And if you leave a property to someone after you pass away, inheritance tax may be charged on some of its value.

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For help and advice Accounting and Taxation; call our team on 0203 488 7503, 01992 236 110 or contact us by email at welcome@walshwestcca.com or via our website www.walshwestcca.com and we will help you.