

CGT On Residential property



Are you selling a property that has not been your main residence throughout your ownership? Or a property that is a buy-to-let? If so, you may have capital gains tax to pay.

Under current legislation, when a UK residential property is sold and capital gains tax is due, there is a requirement to notify HMRC within 60 days. Any tax due must be paid by the same deadline. Prior to 27th October 2021, the period was 30 days.

The reporting requirements apply to disposals by an individual, the trustees of a trust or the personal representatives of an estate.

What is a capital gain?

On a very simplistic level, a capital gain arises where there is an increase in value between the price you paid for the property and the price you sell it for. Of course, tax is never that simple in real life. Certain allowable deductions are available to reduce the gain. They include the following:

- Costs of acquisition, such as legal costs and stamp duty land tax
- Costs of disposal, such as legal and estate agent costs
- Allowable capital improvement costs, such as the cost to build an extension or new kitchen

The costs of acquisition and disposal are usually easy to ascertain. The capital improvements, however, are not so obvious. A good rule of thumb is that a capital improvement will be reflected in the sale price.

Redecoration and painting the lounge doesn't count and nor do repairs. Any deduction that has already been given income tax relief in a rental property will not be considered a capital expense.

A mortgage is also not an allowable deduction and costs of finance are specifically disallowed in the capital gains tax legislation.

There may also be an annual exemption available to reduce the gain further.

How is a capital gain taxed?

The rate of tax depends on who is making the disposal. If trustees or personal representatives are paying the tax, the rate will be 28% for residential property disposals.

For an individual, the tax rate is based on your income. Any gain that falls into the basic rate band is taxed at 18% and the gain falling into the higher rate is taxed at 28%.

How are HMRC notified?

Within 60 days, the person liable for the tax will need to prepare and submit an online Capital Gains Tax on UK Property return.

The return can be made by you or an agent on your behalf. The agent needs to be authorised specifically for this process and a good agent will guide you through the bits you need to do.

A self-assessment return may still be required but this will depend on your personal circumstances.

What if I miss the deadline?

Late filing penalties apply to a late return and interest is added to any late paid tax.

It is possible to have a late filing penalty cancelled if there is a reasonable excuse for the delay but it must be a good one, forgetting is not a reasonable excuse.

Can Gepp's help?

In short, yes.

We can calculate the gain arising, prepare the Capital Gains Tax on UK Property return and, in certain circumstances, arrange the tax payment for you (provided we have cleared funds available, of course).

What next?

If you would like to discuss how the 60-day reporting affects you or would like to know what your tax liability will be on a sale please contact Marc Dorsett on 01245 228146 or dorsettm@gepp.co.uk