

TAX POLICY CHANGES SELLING RESIDENTIAL PROPERTIES



ST.ASAPH

01745 586360

WWW.SAGECO.CO.UK

Selling a residential property – TAX is changing, and earlier payments are needed.

Do you have a residential property that you are thinking of selling? If so, there are a few changes in the tax rules from April 2020 that may impact you:

Selling any residential property other than your home:

- Selling a buy-to-let property or second home – you now have to report the capital gains and pay the tax just 30 days after selling – from April 2020.

Selling your own home:

- The rules on your own home and its treatment for tax and private residence relief are changing.
- A relief called 'lettings relief' is changing too, this may well cost you more tax!

Please bear these rules in mind if planning disposals and of course speak to us in advance as careful planning of disposals will become more important. This will allow you to manage your tax affairs effectively and also be compliant with HMRC as well as, managing your cash-flow.

If the above might affect you, we are here to help. Attached is a useful summary newsletter.

It seems this change has had little publicity, by all means advise family and friends who may be affected too.

There are some important changes being made to the calculation, payment and filing of returns concerning residential property. Please do take some time to consider these as explained below and contact us should you require any further information.



TAX ON THE SALE OF PRIVATE RESIDENCES – CHANGES YOU NEED TO BE AWARE OF

The way capital gains tax (CGT) is paid on residential property is changing and this will affect any sales of residential property and in some cases gifts that are made after 6 April 2020.

For residents of the UK there are three main changes that you will need to be aware of:

- Changes to the way disposals are reported to HMRC and the timing of any capital gains tax due – earlier payment of CGT on residential property.
- Changes to the period that will qualify for private residence relief (if the property has at some point been your main residence).
- Changes to lettings relief - a relief that is available if you have, at some point, let your main residence.

For non-residents there are further changes that may affect any disposal of land and property and you should speak to us prior to making any such disposals.



REVIEW OF THE DISGUISED REMUNERATION LOAN CHARGE

Currently if a residential property is disposed of the transaction is reported under the normal self-assessment rules, i.e. a return is completed to the 5 April in any given year and any tax due is payable by 31 January following.

This means that for individuals CGT is paid anywhere between 10-22 months after the date of sale and the Government with these new rules, wants to collect this tax earlier - within 30 days.

The changes mean that any tax payable on disposals of residential property will be made significantly earlier than previously and will come into effect from 6 April 2020.

From 6 April 2020 when making a disposal an individual will be required to:

- Make a return within 30 days of the completion date where tax is due.
- Any tax due must also be paid within 30 days and is called an amount notionally due - one can think of this as a CGT payment on account.

From 6 April 2020 when making a disposal an individual will be required to:

- Make a return within 30 days of the completion date where tax is due.
- Any tax due must also be paid within 30 days and is called an amount notionally due - one can think of this as a CGT payment on account.

Returns can be amended but only in respect of events that existed at the date the return was submitted.

Available capital losses can be offset when calculating the amount notionally due and where there is more than one disposal in the year the disposals are cumulative.

In short, some of the proceeds from the sale may be needed to pay a tax liability within 30 days and as such can cause cash-flow issues, especially if the proceeds are needed to repay a mortgage or for other purposes, you may not have as much cash available as you first thought.

The gain will then be shown on a self-assessment tax return in the usual way and the final calculation of the total CGT liability for the year will be performed, as usual, through this return. Any over payment can be refunded at this time.



EXAMPLE

Peter sold his buy to let property in June 2020 and has made a gain of £40,000. Peter expects to be a higher rate taxpayer in the year to 5 April 2021 so the tax due is £7,840. The tax will be paid within 30 days of the completion of the sale.

Peter sold some shares in August 2020 and made a loss of £50,000 as a result there is now no CGT due for the tax year to 5 April 2021 but he will be unable to claim a refund of the £7,840 he has paid until he completes his self-assessment tax return after 5 April 2021. This is because an amendment of his property disposal form is not possible as the loss was not an existing condition at the time of the property disposal.

In the above situation, had Peter had brought forward capital losses, he could have applied them to the first gain.

Please note that a disposal for these purposes can include gifts so these provisions apply also to transfers of property to family members.

The majority of main residence disposals will continue to be made free of tax. But this is not automatically the case and in order for us to assess this for you we will need to be informed of any such disposals.

Action – where there is a disposal of residential property after 5 April 2020 it is vital that you notify us of any disposals as soon as possible so we can make the appropriate computations. It will be beneficial to contact us before the sale so we can establish the position with the cost of the properties and identify any allowable costs that we can claim to reduce any capital gains tax due.



CHANGES TO THE PERIOD THAT WILL QUALIFY FOR PRIVATE RESIDENCE RELIEF

Sometimes the homeowner moves out of their home before it is sold. If they leave the property before contracts for the sale have been exchanged, the gain accruing for the final period when the owner is not occupying the property, and a sale has not been agreed, would be subject to CGT.

Currently, there is a relief for 18-months to cover that last period of ownership. This last period relief was reduced from 36-months in April 2014, but the 36-month period of PPR exemption was retained for owners who move into a care home or who are disabled.

The Government is changing the PPR exemption for the last period of ownership (when the owner is not in occupation) to just 9-months. This may well increase the tax liability you have to pay. However, the 36-month exemption period will be retained for disabled owners or those who live in residential care.



CHANGES TO LETTINGS RELIEF

Where a main residence has been let at any time, each owner can claim lettings relief to reduce the taxable capital gain. This relief can cover gains of up to £40,000 per owner, but it is only available if the property has been the owner's main home for a period.

The changes from April 2020 will mean that lettings relief will only be available for periods when the owner lived in the property at the same time as the letting. The new rule will apply to the whole period of ownership so there will be no relief for letting periods unless there was shared occupancy, even for periods prior to 6 April 2020.

Homeowners who have moved and then let out their former home will be hit by this change, in some cases the tax payable will significantly increase.

Action – as a result of these changes individuals may wish to bring forward any planned disposals of any affected property but please speak to us beforehand so we can confirm the amounts likely to be involved.

We trust that you found this update informative, this represents a substantial change to how capital gains tax is reported and paid. We would strongly recommend that you speak to us before making such disposals so we can advise on the most appropriate tax efficient route ensuring you are fully informed of the process and payment dates of any resultant tax.



KEEP UP TO DATE WITH ALL OF OUR LATEST NEWS ON OUR WEBSITE

find out more...
www.sageco.co.uk



we're social...



sage

& COMPANY
CHARTERED
ACCOUNTANTS

SAGE & COMPANY

102 Bowen Court
St Asaph Business Park
LL17 0JE
01745 586360
www.sageco.co.uk



ST.ASAPH
01745 586360
WWW.SAGECO.CO.UK