

January 2020

RESIDENTIAL PROPERTY AND CAPITAL GAINS TAX (CGT)

If you are a landlord or second home owner, it can feel like the tax rules and regulations that apply to you are constantly in flux. In the past few years, we've seen changes to mortgage interest relief, the introduction of a stamp duty surcharge, a ban on letting fees, and new rules around houses of multiple occupation. 2020 brings further changes - this time for Capital Gains Tax (CGT). These proposed rules, subject to legislation, could affect anyone selling a residential property after 5 April 2020, so it's important to plan ahead.

30-day payment window

After 5 April 2020, you will have just 30 days following completion to pay tax you estimate is due on the gain made from the sale of residential property. As part of this procedure an initial calculation of the gain will need to be prepared and a standalone Return submitted within the same time frame.

Currently Capital Gains are reported through the Self-Assessment Tax Return, and this means that if you sell a property between 6 April 2019 and 5 April 2020, it will be declared on your 2020 Tax Return and the tax due on the gain must be paid by 31 January 2021. Depending on the timing of the sale the tax could be payable up to 22 months after the date of the disposal. Going forward you will have a maximum of 30 days.

Cuts in relief on the sale of your home

This change applies to properties which have been a person's only or main residence at some point during the period of ownership but are still liable to CGT e.g. have been let out or remained empty for certain periods. Currently, the final 18 months of ownership are treated as a period of deemed occupation for the purposes of calculating 'Private Residence Relief' regardless of whether the person is living there or not. However, where the date of disposal is on or after 6 April 2020, the final period of exemption will be reduced from 18 months to 9 months.

Lettings Relief has also historically been available where a property which qualifies for Private Residence Relief has also been let in a period of absence. From 6 April 2020 it is expected that Lettings Relief will only be available if there is shared occupation (i.e. the owner and the tenant both live in the residence at the same time), thereby, in practical terms, effectively abolishing Lettings Relief.

These changes have yet to be legislated for and are planned for the Finance Bill 2020. The detail is subject to consultation, so may prove different to the above, but be warned that these further changes could dramatically impact future tax bills on the sale of residential property.

Some key points and planning tips

- The 30-day payment and declaration apply regardless of whether you are in the Self-Assessment system or not;
- Self-Assessment taxpayers will continue to report the gain on their Tax Return and pay any CGT over and above the provisional payment by the usual Self-Assessment deadlines;
- The 30-day time limit is triggered by the completion date (although the exchange of contracts is still the date of sale for CGT purposes);
- Returns are not required for disposals where no tax is due;
- 30 days isn't very long! Funds will need to be put in place to cover the CGT liability as soon as the sale is completed;
- Remember gifts can also result in gains, but don't produce any cash, so make sure the funds are available before the gift is completed;
- If you are planning a sale then gather the information required to compute the gain sooner rather than later, so that the tight deadline may be met;
- To work out the provisional CGT payable, your taxable income for the year will need to be estimated to determine how much CGT is payable at 18% and how much at 28%;
- Other CGT disposals which are not subject to these rules (e.g. sale of shares or commercial property) may be ignored in calculating the provisional tax due (but see below re losses);
- Capital losses brought forward from earlier years or made in the same year as the gains (but prior to the date of sale) can be offset if desired.

The above is for general guidance only and no action should be taken without obtaining specific advice.

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