CARPENTER BOX

ADVISORY / TAX / AUDIT

Changes to Capital Gains Tax Regime

CGT changes from April 2020

There are three changes which have a significant effect on UK residential property sales taking place after 5 April 2020. Two of these changes may be relevant if a property is sold which at some stage was the individual's main residence. The third change is an acceleration of the reporting and payment of a capital gains tax liability on the sale of residential property.

1. Letting Relief: Potentially £40,000 relief lost

Rules prior to 6 April 2020

If you sold a residential property which was at one time your main residence but has then been rented out, it was possible to claim 'lettings relief' of up to 40,000 from any capital gain. Furthermore, this claim could be doubled where there are joint owners of a property.

Rules from 6 April 2020

For disposals from 6 April 2020, lettings relief is no longer available unless the letting of the property occurred while the owner was living in the property at the same time as the tenant.

2. Reduction of relief available for the final period of ownership

Rules prior to 6 April 2020

The last 18 months of ownership of a property which was at any time your main home, is treated as qualifying for principal private residence. In other words, this part of the gain is exempt from tax, along with the actual period of occupation.

Rules from 6 April 2020

From 6 April 2020 this tax relief is only restricted to the final 9 months of ownership, therefore halving the relief.

3. Reporting and payment of Capital Gains Tax payable to HMRC.

This change applies to all disposals of UK residential property including buy-to-let and second homes where there is a capital gains tax liability.

Rules prior to 6 April 2020

A capital gain is declared on an individual's personal tax return and any tax is payable on 31 January following the end of the tax year.

Non-UK resident vendors are already required to report and pay capital gains tax on sales of UK property within 30 days.

Rules from 6 April 2020

From 6 April 2020, within 30 days of completion of the sale of a UK residential property, all vendors are required to submit a provisional calculation of the gain to HMRC and pay the tax that is due. Please note that where there is no gain or loss, or where no CGT is payable then no return is required.

The taxpayer is also required to report this gain on their annual tax return. If the taxpayer has, at the time of submitting the declaration incurred capital losses on other sales in the year, then they can offset these in the provisional calculation. However, any expected future losses which have not been incurred, can only be claimed when the self-assessment tax return is submitted.

Future planning and practical issues

If you are planning to either sell, gift or transfer a property in the UK, it is always sensible to speak to your accountant first to see if there are any potential tax savings that can be made.

Conveyancing solicitors should remind you of your tax obligations, but may not be tax experts and therefore may not be aware of the changes.

It is your responsibility as the vendor to make sure you have made the necessary disclosures to HMRC.

Please speak to your Carpenter Box representative if you need any advice.

Find out more

T: 01903 234 094
E: info@carpenterbox.com
www.carpenterbox.com

Key contacts

Karen Thomas
Associate, Head of Private Client Services
E: karen.thomas@carpenterbox.com

Rachel Pearce
Partner, Tax Services
E: rachel.pearce@carpenterbox.com

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