

Property & Letting

Capital Gains Tax and your home

Provided your home has been your only or main residence during the whole period of ownership (or from 31 March 1982), it will be exempt from capital gains tax (CGT) when you sell it. Temporary periods of absence may be allowed in conjunction with various rules.

Property Investments and Tax

Generally income arising from Property Investments is divided into two categories.

- Investment Income: Income from land and buildings with the exception of income generated from furnished holiday lettings or from property development.
- Trading Income: Income derived from the provision of services such as hotels and guest houses, property development and furnished holiday lettings.

Rental income (except furnished holiday lettings) is treated together as from one business, regardless of the terms of letting. Profits and losses are calculated using the same general accounting rules as for trading, including accruals to cover the timing difference of rent or expenses in advance or arrears

Allowable Expenses

Expenses allowable in calculating income include interest incurred on loans used towards the purchase of the property (adjusted for any part private use), business rates or council tax, rent payable to a landlord, insurance and management expenses including advertising for tenants, and maintenance, repairs and redecorations. Management expenses can also include costs of travelling exclusively for property letting purposes.

Please note that there have been major changes to the way interest is relieved going forward that will affect higher rate tax payers and holders of larger portfolios. If you are in this position please speak to us without delay.

Expenses on improving the property (such as extensions or installing central heating), or those which were necessary to bring newly acquired property to a useable state, all form part of the capital cost of the property.

Inheritance tax considerations

Unfortunately, the favourable concessions for income tax do not extend to inheritance tax. Please contact us for further advice in this area.

Rent a room relief

Under the 'rent a room' scheme, income from letting furnished rooms in your main residence will be exempt from tax if the gross annual rent does not exceed 7,500 (3,750 if you share the income). If you are letting to lodgers who live as part of the family, there will be no loss of capital gains exemption. Otherwise, there may be some restriction.

Furnished holiday lettings

Businesses which comply with the relevant conditions can qualify for some very important tax concessions. Furnished holiday lettings are treated for tax purposes as if they were trades. Unlike other domestic lettings, the expenses can include capital allowances on furniture and kitchen equipment.

Stamp Duty

There is no charge to Stamp Duty Land Tax if residential property is purchased for 125,000 or less, or on non-residential property for £150,000 or less. Otherwise SDLT is charged at appropriate percentages. Higher rates of 3% above the SDLT rates will be charged for second homes and buy to let properties. Stamp duty is an even larger concern with property transactions now.

Disposal

If the purchase and sale of properties amounts to a trade then profits will be taxed as income in the normal way. In all other cases, disposal will be subject to the normal rules for the calculation of capital gains.

The situation may be complicated where a principal private residence has been let at some time during the period of ownership. In these circumstances, the associated lettings relief of up to 40,000 (80,000 for a couple) could be brought into play.

Property taxation can be complex in nature and we advise you to seek further professional advice on the above or any other matters.

For any assistance or information regarding the Property Management of your Investment property, please call Tracey Rogers at Just Lets on 01487 829052 or huntingdon@justlets.com or visit their website at www.justlets.com