



The Carbon Accountancy Guide to Capital Gains Tax on Property

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When considering property transactions it is important to understand the tax implications. This guide sets out the general rules applicable to property. It is not intended to be a substitute for proper professional advice from your accountant or tax adviser.

You don't usually have to pay Capital Gains Tax when you sell or dispose of your own home. This is because you get a relief called Private Residence Relief. You may have to pay Capital Gains Tax if you own more than one property or you use your home for business purposes and have been claiming tax deductions for business use.

Tax on the sale or disposal of your main home

When you sell or dispose of your own home you won't have to pay any Capital Gains Tax if you satisfy two conditions. For the whole time you have owned it both the following must apply:

- i. It has been your only home or main residence.
- ii. It has been used as your home only and for no other purpose.

Working out the relief

To work out the Principal Private Residence relief you need to work out the period that you have owned your home for. This starts on the later of:

- i. The date you bought or acquired it.
- ii. 31st March 1982 (this is when Capital Gains Tax was first introduced).

It ends on the date that you sell or dispose of it.

The final three years (36 months) always qualify for relief. This applies even if you were not living there during the final three years. It must have been your only or main home at some point during the time that you have owned it for this three year period to apply.

Restrictions to the relief

Buy to Let properties will not qualify for relief. In addition you may not get the full amount of relief if:

- i. The garden or grounds, including the site of the house, are larger than 5,000 square metres (roughly the size of a football pitch).
- ii. You have used any part of your home exclusively for business purposes – so you can have an office in your home provided that office is also used for personal use.



- iii. You have let out all or part of your home (or taken in more than one lodger at a time). But you may be entitled to Letting Relief instead - see the section 'Letting all or part of your home' below.
- iv. The main reason you bought it was to make a profit from a quick sale.

You do not have to claim Private Residence Relief – it is given automatically. You may have to show the amount of relief due on your Self Assessment tax return if you normally complete one.

Losses on the sale of your home

If you qualify for Private Residence Relief but you make a loss on the sale or disposal of your home, it is not an allowable loss. You won't be able to set that loss off against other gains. If only part of your home qualified for Private Residence Relief then you may be able to claim for any loss on the part that did not qualify.

Absences from your home

Even if you did not live in your home for all of the time that you owned it you may still be entitled to the full amount of Private Residence Relief.

Absences when you first buy your home

You may still be able to get the full relief if you cannot move into your home immediately when you first buy it. For example if you cannot sell your old home or you need to refurbish your new home. If you move in within 12 months you will still get the full relief. This may be extended to two years in exceptional circumstances.

Absences as you've moved out of your home

You may still get the full relief even if you did not live in your home all of the time that you owned it. The final 36 months (three years) that you own it will be treated as if you lived there, even if you did not and even if it was rented out. The property must have been your only or main home at some time during the time that you owned it.

Working away from home

You will still get the full relief if you could not live in your home because you were employed and either:

- i. You carried on all of your work or duties outside the UK.
- ii. The distance from work or the requirements of your job stopped you living at home - and you were absent for less than four years.



The following must also apply:

- i. The house was your only or main home both before and after you worked away.
- ii. You were not entitled to Private Residence Relief on any other property during that time (see 'Owning more than one home' below if you are unsure).

If you cannot return to live in the house because your job still requires you to work away you will get the full amount of relief.

Example

You bought a house in 1995 and used it as your main home.

Your employer sent you to work abroad in 1996.

You returned to your main home in 2001 and lived in it until you sold it in 2012.

You're entitled to full Private Residence Relief as your absence was because you had to work abroad.

Using your home for business purposes

You might work at home or run your business from there. You can still get the full amount of the relief as long as you keep using your entire house as a home. For example, the room you use as an office may also be used as a guest bedroom or computer games rooms.

If any part of your home is used exclusively for business purposes, you will have to work out if there is any Capital Gains Tax to pay. For example, if part of your home is used as a joiner's workshop.

Because of the above it is generally not advisable to claim part of the running costs of your home as tax deductible business expenses other than a very modest use of home allowance. If you claim substantial amounts of tax deductible costs HMRC are likely to view the property as being partially taxable on sale.

Example

You use 25 per cent. of your home as business premises and 75 per cent. as your living area.

You sell your home making a gain of £100,000.

You'd be entitled to Private Residence Relief of £75,000 on the part used as your home (75 per cent. of £100,000).



You have to work out the Capital Gains Tax due on the taxable gain of £25,000 (£100,000 less £75,000).

Letting all or part of your home

If you have let out all or part of your home as a residential letting (not commercial letting) you may not get full Private Residence Relief when you sell or dispose of it - but you may get another relief known as 'Letting Relief'.

The maximum amount of Letting Relief due is the lower of:

- i. £40,000.
- ii. The amount of the Principal Private Residence Relief.
- iii. The amount of taxable gain you've made on the let part of the property.

Effectively this means that you cannot create a CGT loss on the property – the best you can achieve is a “no gain no loss” position.

Example

You used 60 per cent. of your house as your home and let out the other 40 per cent.

You sell the property making a gain of £60,000.

You are entitled to Private Residence Relief of £36,000 on the part used as your home (60 per cent of the £60,000 gain).

The remaining gain on the part of your home that's been let is £24,000.

The maximum amount of Letting Relief due is £24,000 as this is the lower of:

- i. £40,000.
- ii. £36,000 (the Private Residence Relief due).
- iii. £24,000 (the gain on the part of the property that's been let).

There is no Capital Gains Tax to pay - the gain of £60,000 is covered by the £36,000 Private Residence Relief and the £24,000 Letting Relief.

Tax on property that is not your main home

Typical types of property you might pay Capital Gains Tax on include:

- i. Property that you've bought as an investment, for example a buy-to-let property.
- ii. A second home, for example a holiday home in the UK or overseas.



You will normally have a chargeable gain if your property is worth more than you paid for it when you sell or dispose of it. However, the first £10,600 of your total taxable gains are tax free in the tax year 2011-12 – this is your annual CGT exemption allowance

It is worth bearing in mind that:

- i. When working out the chargeable gain you can deduct some of the costs of buying, selling and improving the property including costs such as stamp duty, agents fees and legal fees.
- ii. If you have made a loss on the property, you may be able to set that off against other capital gains you may have.

If you are living together you can transfer property by way of gift to your husband, wife or civil partner without having to pay Capital Gains Tax – they are deemed to have acquired the property at the same cost as you paid.

- iii. If you gift it or sell it at below market value to your children or to others you may be liable to pay Capital Gains Tax based on the market value.

What paperwork do you have to keep?

HM Revenue & Customs (HMRC) recommends that you keep the following information and documents relating to the property:

- i. Contracts for the purchase or sale, lease or exchange of the property – including completion statements from your solicitor.
- ii. Any documentation that describes properties you acquired but did not buy yourself: for example, a gift or an inheritance.
- iii. Details of any property you have given away or put into a trust.
- iv. Copies of any valuations taken into account in your calculation of gains or losses.
- v. Invoices, bills, statements or other evidence of payment records such as mortgage or bank statements and cheque stubs for costs you claim for the purchase, improvement or sale of the property.

It would also be sensible to keep correspondence with buyers or sellers leading up to the sale of the property.