



Capital Gains Tax (CGT) for residential property

From 6 April 2020 the way capital gains on disposals of residential property are reported and how these gains are calculated will change.

The new rules mean that, in most instances, you will need to report the disposal shortly after the sale has taken place.

You may also face increased tax liabilities if the property has qualified for principal residence relief (PRR) at some point during your ownership.

Reporting capital gains on residential property

Disposals of residential property on, or after, 6 April 2020 will need to be reported to HMRC on a CGT return within 30 days of the completion of the sale. A payment of the estimated tax due will also need to be made within 30 days of the sale. Similar rules have been in place for non-UK resident individuals since April 2015.

Failure to meet the filing and payment deadlines will result in interest and penalties being charged.

There are limited exemptions to the requirement to file a return including where the gain is fully covered by PRR and where no tax is payable on the disposal.

As the disposal will need to be reported during the tax year reasonable estimates will need to be made when calculating the tax due.

An amended CGT return, or your self-assessment tax return, can be used to provide final figures once your other income and gains for the year of disposal are known.

If you are planning to sell a residential property after 5 April 2020 please contact PEM as soon as possible to discuss if a return is required.

Changes to the calculation of gains on residential property

When an individual sells their only or main residence, the gain may be exempt if the whole period of ownership qualifies for PRR.

The period of ownership can include a final period of deemed occupation regardless of whether the property is your PRR at this time. Currently this period is the final 18 months of ownership but **from 6 April 2020 this will reduce to the final 9 months of ownership.**

Providing the property has been your PRR at some point during the period of ownership you may also qualify for letting relief if the property has been rented out. The letting relief can further reduce the capital gain chargeable to CGT.

The maximum letting relief is up to £40,000

per owner (i.e. £80,000 for a couple who jointly own a property).

From 6 April 2020 letting relief will only be due where the property has been let in shared occupation with the owner (i.e. both the owner and the tenant are living in the property at the same time), historically there has been no need for shared occupation to qualify for this relief.

An example of how the adjustments to PRR could affect your tax position is set out below. This highlights additional tax of £30,800 where the sale is delayed by one day.

A couple sell their former main residence, realising a capital gain of £400,000. It has been occupied as their PRR for 4 years and then let for 6 years. Contracts exchange and complete on the same day.

	Sale 5 April 2020 £	Sale 6 April 2020 £
Capital gain on sale	400,000	400,000
PRR period (note 1)	(220,000)	(190,000)
Letting relief (note 2)	(80,000)	-
Chargeable gain (note 3)	100,000	210,000
CGT payable (note 3)	28,000	58,800

Note 1: If contracts exchange on 5 April 2020, PRR will be due for 5.5 years (4 years of occupation and final 18 months), if contracts are exchanged on 6 April 2020 PRR will be due on 4.75 years (4 years of occupation and final 9 months).

Note 2: If contracts exchange on 5 April 2020 letting relief of £80,000 will be available, if contracts are exchanged on 6 April 2020 no letting relief will be due as there is no shared occupation.

Note 3: calculations assume annual CGT exemption is set against other gains in the tax year and that CGT is due at the higher rate.

Note 4: Please note the exchange of contracts is the date of disposal for tax purposes unless you have entered into a conditional contract.

If you own a property that is, or has been, your PRR for part of your ownership period you should contact PEM as soon as possible to discuss how these new rules could affect your potential CGT liability. In some circumstances it may be possible to trigger a disposal, for tax purposes, prior to 6 April 2020 to allow you to bank some of the relief that you may be due.

Please note that the information contained within this factsheet is not intended to give specific technical advice nor should it be construed as doing so. Professional advice should always be sought before action is either taken or refrained from as a result of information contained herein.



PEM
Salisbury House
Station Road
Cambridge CB1 2LA

t. 01223 728222
e. pem@pem.co.uk

