

Happy holidays

There is another sort of renting that gets extra tax reliefs – “furnished holiday lettings”, where the same tenant does not stay for more than 30 days at a time. There are quite a few rules about how much of the year the property has to be available and how long it must actually be let, but then:

1 gains qualify for “Entrepreneurs’ Relief”, which means a reduced CGT rate of only 10% on the first £1m of gains.

1 you enjoy 100% business property relief for IHT, so the value disappears from your estate for that tax after 2 years.

The downside is that you have to be concerned with VAT, but only if your gross rents reach £66,000 a year or you are already registered for another business.

Lodgers and tenants

If you rent out part of your main residence while you are living in it, there is an exemption from income tax for up to £4,250 of rental income.

Family arrangements

There are some occasions when tax planning for houses is particularly important, such as on separation or divorce: typically one spouse moves out but often continues to own half the house. The CGT exemption can be lost unless you are careful.

How we can help

There are plenty of opportunities to make money in property. We can advise you on how to keep hold of as much as possible – making your property secure against the taxman!

OUR SERVICES

Essex Abel are here to help guide you through the issues detailed in this guide or any other business or taxation issue you may have.

We offer a FREE initial consultation to discuss your individual requirements, from which we will be able to provide a clear and concise plan of action to address the issues discussed.

All our clients (whatever their size or needs) all have something in common – they receive the same professional, reliable, friendly, quality service that forms the basis of our core business values.

We offer an extensive range of services, including the following:

- Tax Planning Advice
- Tax Returns
- Business Start-up Support
- Business Plans & Forecasts
- Year End & Management Accounts
- VAT Returns & Bookkeeping
- Payroll & CIS Bureau
- Statutory Audits
- Company Secretarial Services

For further information on our services, please see our website www.essexabel.co.uk or contact us directly on 01509 267827

Essex Abel Ltd
4 Bank Court
Weldon Road
Loughborough
Leicestershire
LE11 5RF

Email: accountants@essexabel.co.uk

Tax and property



Essex Abel
accountants • business advisors

Tax and property



Safe as houses

The British seem to have a love affair with property ownership – in many other countries, renting is more popular than it is here. Most Britons seem to regard bricks and mortar as the safest place to put their money, encouraged by a number of tax breaks for real estate that are not available for other investments.

Of course, there are occasional property crashes – investors should remember what happened in the early 1990s, and bear in mind that some commentators say current house prices are too high. With that caution, this leaflet explains some of the tax rules that deal with property.

Home sweet home

One of the most generous UK tax rules is the exemption of capital gains on the sale of the house you live in – your “only or main residence”. That’s an incentive to buy the biggest house you can and improve it as much as possible – you pay tax on Stock Market gains, but not on your home.

It’s simple if you live in the house all the time you own it, but there are complicated rules if you are away for a long period – for example, if you take a job elsewhere for a couple of years. You may keep the exemption, but you may lose some of it – it’s wise to check.

You can also make part of a gain taxable if you use some of your house exclusively for business purposes. If you sell off a bit of your property for development – for example, a building plot out of a big garden – there are things you can get right or wrong which can significantly affect the tax.

The CGT rule is very beneficial, but the Chancellor is not so generous with inheritance tax. IHT is chargeable in full on the value of your house if you leave it in your will to someone other than your spouse or registered civil partner – if you have total assets, including your house, of more than the starting point for IHT (currently £312,000), it’s worth thinking about IHT planning.

Home from home

If you have more than one house that you live in – not an investment property that you rent out, but perhaps a holiday home or a weekend place – only one is supposed to be exempt from CGT. It is possible for you to choose which, and to switch the exemption between the two once you have made that choice – there’s an obvious opportunity to exempt the bigger gain or the one you realise first.

Married couples and registered civil partners only enjoy one exemption between them, even if they have two houses.

Buy-to-let...

Buying residential property to rent out has been popular over the last few years. It doesn’t enjoy as many tax breaks as pension policies, but you don’t have to follow as many rules either.

The CGT rule is very beneficial, but the Chancellor is not so generous with inheritance tax.

The rent from your tenants is taxable income, but you can take off any interest you pay on loans to buy the property, and most other running costs that you may pay as landlord. Often there is very little income profit left over. If you have several properties you can pool all the profits and losses as a single business.

Capital gains on buy-to-lets are taxable. After 5 April 2008, the difference between the disposal value and the allowable costs is taxed at a flat rate of 18%. You can deduct the cost of capital improvements you’ve made to the property, but not running expenses like insurance or repairs (they are taken off income instead). If you own the property jointly with your spouse or civil partner you can set two annual exemptions against the gain (£9,600 each tax-free).

As with your own house, there is no relief from IHT for buy-to-lets – but at least you can take any outstanding mortgage off the value.

...or move-to-let?

It may not fit in with your plans, but there are very attractive CGT reliefs for letting a house that has at one time been your main residence. You will exempt a proportion of the gain based on the time lived in and the time let, and the last three years of ownership (likely to be let) qualify as exempt; and you take up to £40,000 off what’s left. It’s worth thinking about next time you are going to move, if you would otherwise be investing in buy-to-let.