

FACT SHEET

BUY-TO-LET PROPERTY

Following the pre-budget report and with yields falling and uncertainty appearing in the UK property market many owners of rented property are considering their position.

Everyone's main home is exempted from capital gains tax when sold because principal private residence relief (PPR) is granted against the whole of the gain (assuming there was no business use), but when a second property is sold there may be a liability to capital gains tax on the disposal.

If a married couple have more than one property, then the principal private residence (PPR) relief will be available for the property occupied as the main residence, **on a question of fact**.

On the purchase of a second home, the owner has **two years to elect** which of their homes is their principle residence. They do not have to be living in it at the time. After the two years, they lose the right to make a nomination and the onus would fall on them to prove that they were living in the second property if they want to avoid CGT.

Many people do not realise that the two-year election period applies and fail to take advantage, however it is possible to **revive it** if a third property is purchased, or if the second home becomes your principle residence for a time.

It may be possible to cut capital gains bills by living in the second property for a period of time. This involves transferring bank, postal and electoral details for the period to prove that you were resident and perhaps even renting out your main home.

Special rules apply to properties that have been a main residence. The period when it was the main residence is exempt, plus the last 36 months of ownership (The three year rule). So a period when the home was rented out can be exempted for tax purposes.

It is assumed that any capital gain is spread equally over the period of ownership, and relief is given on a pro-rata monthly basis. Property valuations on change of use are not considered.

For those who have previously rented out their main residences there is the added benefit of being able to claim up to £40,000 of letting relief. This is available to anyone with a share in the property – giving a couple, even if married, up to £80,000 between them.

The amount of private letting relief that can be claimed cannot be greater than £40,000 and must be the lower of that sum, the amount of principal private residence relief being claimed, or the capital gains made during the letting period.

Finally for 2007/2008 the first £9,200 of an individual's capital gains remains exempt from tax.

Given the huge rise in house prices over recent years, anyone facing a big bill should seek expert help to save them money in the long run..

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