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Landlords face investment property tax shocker

With the Government expected to announce an increase in Capital Gains Tax in the new year, Worcester landlords could be in for a shock and should seek professional advice to reduce their tax liability, warns city-based letting agent.

Whether you are an accidental landlord or professional property investor, it is important to consider your tax position should you decide to sell your investment property, explains leading Worcestershire letting agent Premier Places.

“Despite recent falls in property prices long term investors, who have been harbouring capital gains, have been tempted to take advantage of this summer’s increased market activity and sell their property.

“Yet a visit to their accountant may result in a nasty shock. After deducting all costs, allowances and the annual exemption, the resultant net gain will be chargeable to Capital Gains Tax, currently at the flat rate of 18 per cent.

“With some early advice from Premier Places, combined with some careful life planning we can show how this tax bill may be averted.” explained tax expert Peter Haley of Premier Places.

He continued: “Many property investors will be aware of the ‘Private Residence Relief’ which exempts from tax a gain realised on the sale of their main residence. However, few are aware that this relief, together with a little known ‘Residential Lettings

Exemption' can apply to significantly reduce their tax, where for at least part of the time of ownership, the property has been occupied as their main residence.”

Time is an important factor in calculating any chargeable gain. To do so, an accountant will pro-rata the gain over the period of ownership and apply tax relief where appropriate.

Having established the period of owner occupation, a property owner will receive tax exemption on any capital gain arising in the following circumstances:

1. For the total period of owner occupation.
2. For the last 36 months of ownership.
3. In addition to the above, the 'Residential Lettings Exemption' will also apply to further reduce the gain by the total amount identified as exempt above, or £40,000, whichever is less.

“For example, the sale of an investment property that has been owned for a period of seven years, producing a modest gain, tax may be averted altogether when the owner has occupied the property as his or her main residence for two years. This could represent a potential saving of many thousands of pounds.” said Mr Haley

For advice or information on any aspect of property management or taxation, contact Peter Haley at Premier Places on 01905 616616 or peterhaley@premierplaces.co.uk.

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