Understanding Capital Gains Tax for Property Investors

Capital Gains Tax (CGT) is an essential aspect of property investment that applies when you sell a property for more than you paid for it. In the UK, this typically affects buy-to-let properties, second homes, or commercial real estate. The taxable gain is the profit after subtracting the original purchase price, improvement costs, and selling expenses from the sale proceeds.

The CGT rate for basic rate taxpayers is 18%, while higher rate taxpayers face a 28% charge.

Pages like HMRC, can provide you with more detailed information on how CTG works, including allowances and rates.

However, there are ways to reduce your CGT liability:

1. **Annual Exempt Amount**: Every individual has a CGT allowance, which allows you to earn a certain amount of profit tax-free each year. For the 2023/24 tax year, this is set at £6,000. If you own a property with a partner, you can combine your allowances to shelter more of your gain.
2. **Offsetting Losses**: If you've made losses on other investments or properties, you can offset these against your gains, reducing the overall amount of taxable profit.
3. **Spousal Transfers**: Property transfers between spouses or civil partners are exempt from CGT, allowing you to potentially transfer ownership and make use of both partners' tax allowances.

4. **Costs of Improvements**: Certain capital expenses, such as significant property improvements (extensions, new kitchens, etc.), can be deducted from the profit, lowering the CGT amount.

5. **Hold Long-Term**: By holding onto the property longer, you can spread out your gains over time and use multiple tax years' allowances, effectively reducing the amount you owe.

Being aware of these strategies will help you minimise your CGT liability and maximise your returns on property investments. It's always advisable to seek professional advice to ensure compliance with tax regulations and to take full advantage of available reliefs.

Give us a ring today to get more advice.

Written by Vicky Wojslaw
Summer Sky Investments Ltd.