



# Investment Property

## Disposing of investment property in 2024/2025



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**The sale of an investment property may trigger a capital gains tax (CGT) liability and the gain must be reported to HMRC and the tax paid within 60 days of the sale completing.**

## POTENTIAL CGT CHARGE

If you own an investment property, such as a buy-to-let or a holiday let, or you own a second home, the sale of the property may trigger a capital gain.

Unlike the sale of your main residence, the full gain on an investment property is unlikely to be sheltered from CGT, meaning that if you realise a gain that is more than your annual exempt amount and any allowable losses that you have available, there will be capital gains tax to pay.

## CGT RATES

Higher rates of CGT apply to gains made on residential property. The rate is 18% to the extent that income and gains do not exceed the basic rate band (set at £37,700 for 2024/25), and 24% thereafter. The higher rate was reduced from 28% to 24% in the Spring Budget 2024. The 24% rate is restricted to residential property sales accruing to individuals, trustees and personal representatives.

Gains on non-residential property are taxed at the lower CGT rates of 10% where income and gains do not exceed the basic rate band and at 20% thereafter.

## COMPUTING THE GAIN

The gain on a property sale is found by deducting allowable costs from the disposal proceeds.

The allowable costs include the cost of buying the property, the cost of any improvements and the incidental costs of buying and selling, such as stamp duty land tax, solicitor's fees and estate agent's fees.

The gain may be reduced by reliefs, such as main residence relief.

The annual exempt amount is set against net gains for the year. If you have unused losses from previous years, you can use these to reduce the chargeable gain.

## AVAILABILITY ON MAIN RESIDENCE RELIEF

If your investment property has at some point been your only or main residence, you will be able to benefit from main residence relief to shelter part of the gain. This may be the case if you kept a former home as an investment property and let it out. The gain is exempt to the extent that it relates to the period for which the property was your only or main residence, plus the final nine months.

## LETTINGS RELIEF

Lettings relief is only available if you share your property with your tenant. Where available, the relief is the lower of:

- the amount of main residence relief;
- the chargeable gain relating to the let part; and
- £40,000.

## ANNUAL EXEMPTION AMOUNT

All individuals are entitled to an annual exempt amount which they can set against net gains for the tax year (chargeable gains less allowable losses).

The annual exempt amount is set at £3,000 for 2024/25 (reduced from £6,000 for 2023/24).

## SPOUSES AND CIVIL PARTNERS

Spouses and civil partners are able to transfer assets between them at a value that gives rise to neither a gain nor a loss. This provides them with the opportunity to change the ownership of the investment property prior to the disposal to a third party to take advantage of unused annual exempt amounts and to ensure that the gain is taxed at the lowest possible rate of tax.

For example, if a property is owned by one spouse but neither spouse have used their annual exempt amount, transferring a share in the property to the other spouse prior to sale will access their annual exempt amount and reduce the total chargeable gain and the total tax payable.

## REPORTING GAINS ON RESIDENTIAL PROPERTY

If you make a chargeable gain on the disposal of a residential property in the UK, you must report the gain to HMRC within 60 days of the completion date.

You do not need to report the gain if the total amount is covered by your available annual exempt amount or if you make a loss on the sale.

The gain must be reported online using HMRC's Capital Gains Tax on UK property account. The service can also be used to view or change a previous return.

The service is available on the Gov.uk website at <https://www.gov.uk/report-and-pay-your-capital-gains-tax/if-you-sold-a-property-in-the-uk-on-or-after-6-april-2020>.

You will need the following information:

- address and postcode of the property;
- date that you acquired the property;
- date of exchange of contracts for sale of the property;
- date of completion of sale;
- purchase price of the property;
- disposal proceeds;
- costs of buying and selling and any improvements made to the property; and
- details of any exemptions or reliefs that you are claiming.

Once you have reported the gain, you will receive a 14-digit reference number from HMRC. This will start with an 'X'. You will need this reference to pay the tax that you owe.

Where the property is jointly owned, each owner must report their share of the gain.

You may be charged a penalty if you do not report the gain on time.

## PAYING THE TAX

If you make a gain on the sale of a UK residential property, you must pay the tax due on the gain within 60 days of completion.

You can either make the payment online when you report the tax or you can pay after you report the gain via online or telephone banking, debit or credit card or by cheque. You will need the 14-digit reference to do this.

The amount of the tax is the best estimate at the time. You can consider the annual exempt amount if this has not been used and also any losses realised earlier in the tax year.

You will be charged interest if you pay the tax late.

If you have other gains and losses in the tax year, you will need to complete the capital gains tax pages of the self-assessment return to work out your liability for the year as whole.

If you have realised losses after you paid the tax on your property gain, you may be due a refund of some or all of the tax that you paid.

## FUNDING THE TAX BILL

Ideally, if you have to pay CGT on the sale of your investment property, you will have sufficient funds available from the disposal proceeds once you have paid the associated costs of sale.

However, if you have taken advantage of rising house prices to release equity from the property, it may be that there are insufficient funds remaining to fund the tax bill once the mortgage has been cleared. Before selling the property, it is prudent to consider how any CGT bill will be funded

## **ROLL OVER AND OTHER RELIEFS ON A FURNISHED HOLIDAY LET DISPOSAL (BEFORE 6 APRIL 2025)**

Furnished holiday lets owners, presently have a number of tax advantages over other residential property lets, one of which is the ability to rollover the gain. Rollover relief allows the CGT to be deferred where the sale proceeds are reinvested in another business asset, such as another holiday let. The base cost of the new property is reduced by the amount of the gain, such that the tax is not payable until that property is sold.

Owners of FHL property may also qualify to have any gain taxed at 10% if they can claim Business Assets Disposal Relief. Again, disposals will need to be completed before 6 April 2025 when these favourable tax planning options for FHL business owners are abolished.

## **WE CAN HELP**

If you are thinking about selling your investment property, please talk to us before you take any action. Some actions are hard to reverse and seeking advice early mean that we can explain the associated tax implications and check to ensure that you are taking advantage of any available reliefs.

Contact us on 020 7870 9050 or visit our website at [www.rpgcc.co.uk](http://www.rpgcc.co.uk).

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