ACTIVE PRACTICE UPDATES

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Morrell Middleton

CHARTERED CERTIFIED ACCOUNTANTS

TAXES TO CONSIDER WHEN MOVING HOME

A property tax shake-up fuels a house buying surge.

If you are considering moving home in the second half of 2020/21, you are by no means alone.

In the month leading up to 8 August 2020, 149,000 properties were put on the market – the highest number since before the financial crash in 2008.

This might be attributed to the pent-up demand caused by the lockdown, as well as owners falling out of love with their home after being confined to it for so many months.

But Chancellor Rishi Sunak's cut to stamp duty land tax (SDLT) announced in July 2020 will have persuaded many people who had been thinking about a move that now is a good time to do it.

Despite the headline of a stamp duty holiday in England and Northern Ireland, it does not mean in every case there will be no tax to pay, while SDLT does not apply in Scotland or Wales.

Here's a look at how the stamp duty holiday works, as well as other tax considerations. On residential property transactions, we are talking about the potential for SDLT on the purchase and capital gains tax on the sale.

It is worth flagging up that these are rather different depending on whether you are dealing with your own primary residence, or it is some other kind, such as investment property or perhaps a holiday home.

STAMP DUTY LAND TAX

On 8 July 2020, the SDLT threshold increased to £500,000 with immediate effect until 31 March 2021.

It is said to take stamp duty out of the equation for 90% of people buying a home, and even if you are one of the remainder who do pay some tax, you will enjoy a saving, said to be on average £4,500.

No wonder the housing market is turbocharged right now.

So, once the £500,000 value is exceeded, tax becomes payable on a sliding scale:

- Up to £500,000 – 0%
- Over £500,000 to £925,000 – 5%
- Over £925,000 to £1.5 million – 10%
- Above £1.5 million – 12%

Previously, first-time buyers were afforded a special discount. This new general discount supersedes this arrangement during the qualifying period and applies to both first-time buyers and those who have owned a property before.

So, if you are buying a house as a primary residence, and disposing of your previous one, for £480,000 you will pay no SDLT. If you are buying one for £615,000 you will pay £5,750 SDLT (5% of the £115,000 excess over £500,000).

If you are buying an additional property, perhaps a holiday home or part of a buy-to-let portfolio, you still benefit from this SDLT holiday. But as before the announcement, a 3% surcharge applies. Therefore the sliding scale for additional properties is:

- Up to £500,000 – 3%
- Over £500,000 to £925,000 – 8%
- Over £925,000 to £1.5 million – 13%
- Above £1.5 million – 15%

Using the same examples as for the £480,000 primary residence above, but for an investment property, the SDLT would be £14,400 (3% of £480,000). And for the £615,000 property, it would be £24,200 (3% of £500,000, plus 8% of £115,000).

In conclusion on SDLT, it is good news with reductions enjoyed all-round, but some (even significant) tax may still be payable.

CAPITAL GAINS TAX

There were no equivalent announcements about capital gains tax, although significant change is potentially in the pipeline.

But for people solely dealing in a primary residence in 2020/21 this is neither here nor there, as they are exempt from capital gains tax by private residence relief.

Again, things are more expensive if you are selling property other than your primary residence.

Remember, capital gains tax only applies to any net gains you have made – not the overall value, and after any other losses (and allowable expenses) are deducted. And each of us has a capital gains tax annual exemption, worth £12,300 in 2020/21.

The tax rate for gains on residential property is higher than other chargeable assets – at 18% in the basic-rate band and 28% above this, depending on your circumstances.

There are more variables when showing a capital gains tax example compared to SDLT.

In a relatively simple scenario, let's assume a single investor sells a property for £600,000 making a £90,000 gain. She has no other gains or losses in 2020/21 and is a higher-rate taxpayer.

She uses her capital gains tax allowance to reduce the gain to £77,700 and has to pay 28% tax on this, costing £21,756.

As the disposal took place after 6 April 2020, this gain and the tax needs to be reported and paid to HMRC within 30 days.

MINIMISING THE TAX IMPLICATIONS

As with most taxes, a bit of tax planning can quite legitimately protect you from some of the cost. Let's start with SDLT.

Managing stamp duty land tax

Assuming we return to the old SDLT regime on 1 April 2021, it will revert back to rates of equal or less generosity for everyone: whether you are a first-time buyer, are moving up the ladder or buying investment property.

So, assuming this plays out, the first action is to do your best to get the deal completed on or before 31 March 2021. If your purchase is not completed by then, you will pay the revised rate.

If you have one property and there is a delay in selling it before you complete the purchase of your new property, this will elevate you into the premium rate where you pay an extra 3%.

This is because in effect, even for the short term, you are buying an additional property. While you can reclaim this if you sell this property within three years, it may cause a cashflow issue.

If the property you wish to buy falls just above an SDLT threshold, you may be able to use this as a negotiating technique to get the purchase price down below the threshold. Indeed, the house may have been deliberately priced in anticipation of this.

Managing capital gains tax

For most property transactions, where a primary residence is involved, capital gains tax should not be an issue. If your circumstances mean it will be chargeable, it will become a very individual calculation to you.

From 6 April 2020, changes in legislation have seen some valuable capital gains tax reliefs curtailed by HMRC where the disposal of a residential property is not your primary residence.

As with all disposals, the annual capital gains tax allowance is available to reduce any gain if you sell an investment property. If there is more than one beneficial owner of the property, for example a husband and wife, both allowances can be used.

If the property was once your primary residence, private residence relief will be available to reduce the chargeable gain. It will apply to the years you lived in the home and the last nine months before disposal, regardless of whether you were in occupancy. It is possible to extend this period to 36 months.

In addition if you lived in the property at the same time as your tenants, you might qualify for letting relief, which can further reduce the chargeable gain before you are taxed.

Once you have considered the availability of these reliefs, capital gains tax is paid at a lower and higher-rate on residential property, depending on your income tax position.

There might be some benefit in timing or managing a disposal to suit a lower-rate taxpayer, although any sizable gain might quickly take someone above the higher-rate threshold anyway.

As all chargeable gains and losses in a tax year are aggregated, you might be able to manage this to your advantage. For example, if you wanted to cut losses on some shares these could be used to offset a gain on property.

We can manage your tax liability when moving house.