Hornbeam Highlights #63

by Phil Needham *Summer 2014*

PROPERTY TAXES & FEAR OF C.G.T.

Property Taxes 1

Principle Private Residence Relief

During my 21 years in practice it has been my experience that clients' fears of Capital Gains Tax have consistently exceeded their liabilities.

That is about to change…… A very small change in the 2014 budget has reduced the extension of Principle Private Residence Relief to the last three years of ownership in most circumstances, to the last eighteen months. Because of its knock on to "Letting Relief" this change can have a spectacular effect on the tax.

Let me explain……

John exchanged on sale of his property after 10 years of ownership on 1 April 2014. He made a £100,000 gain. He had lived in this property for the first 18 months of ownership, and then let it for 8 years before putting it up for sale.

*John is entitled to **Principle Private Residence Relief** for the first 18 months of ownership and the last three years.*

= 4.5 years / 10 years =45%

45% x £100,000 gain = £45,000 PPR relief

*But John is also entitled to a second generous relief; **Letting Relief**. In these circumstances this is the lower of the PPR or £40,000, £40,000.*

So the reliefs add up to £85,000. £15,000 of the gain is chargeable. With £10,900 annual exemption, there is tax to pay on just £4,100.

Now imagine John exchanged on sale of his property after 10 years of ownership on 1 May 2014. He still made a £100,000 gain. He had lived in this property for the first 18 months of ownership, and then let it for 8 years before putting it up for sale.

John is entitled to Principle Private Residence Relief for the first 18 months of ownership and the last 18 months.

= 3 years / 10 years = 30%

30% x £100,000 gain = £30,000 PPR relief.

John is also entitled to Letting Relief, but it has just become less generous. In these circumstances this is the lower of the PPR or £40,000, £30,000.

So the reliefs add up to £60,000. £40,000 of the gain is chargeable. With £11,000 annual exemption, there is tax to pay on £29,000. Ouch!

If you have more than one property, always talk through the possible tax consequences with us periodically. If you are thinking of buying or selling a property if humanly possible, talk to us first.

Property Taxes 2

Renewals Basis

Another cruel change hit residential landlords in the 2013 budget and after dispute with the profession has only now been clarified, namely the loss of the Renewals basis…

Hornbeam Accountancy Services Limited Bidwell Road Rackheath Industrial Estate Norwich NR13 6PT

Whether you are a client or not, if we can provide further help or advice concerning any of the matters covered here, please do not hesitate to telephone us on **(01603) 720424** or email **info@hornbeam-accountancy.co.uk**

Let me explain…..

Residential Landlords cannot claim Capital Allowances on equipment provided in let property. However for many years they have been able to claim replacement of equipment as a cost under the renewals basis. This entitlement was withdrawn with no alternative provided in the 2013 budget.

So what does it affect?

For a start it does not affect setting up costs. Getting a property into a state fit to let has never been allowable expenditure, although improvements will be allowable against the capital gain when the property is sold (see the Hornbeam guide for tips how to get relief for "doing up" your property).

Secondly, it does not affect maintenance and repair costs to the property, and HMRC have helpfully clarified that it does not affect renewals of fitted equipment such as fitted ovens and fridges.

Thirdly, it does not affect things outside the front door of the let property, such as the lifts in a block of flats, or the landlord's van and tools, these all still attract Capital Allowances.

Fourthly, it does not affect small consumable items, such as cutlery, doormats, or waste bins…

So the things most likely to be affected are carpets, curtains, free standing kitchen appliances, and furniture.

HMRC consider the affect likely to be small. We disagree, for most residential landlords these are significant cost items.

***How to rearrange your affairs to get relief*.**

The 10% relief for FULLY furnished property is still available. To be FULLY furnished the property must be capable of immediate occupation. We view this as containing beds, table and chairs, and lounge furniture, as well as the usual kitchen appliances and carpets. There is some dispute as to whether this extends to kitchen utensils. Our advice is to have all this kit available (perhaps in a garage or lock up) and to make sure that your lease specifies that the property is fully furnished. Most tenants will be bringing their own furniture anyway.

Furnished Holiday Lets

Income from furnished holiday lets counts towards the total income for VAT purposes. This can have a number of nasty consequences.

Harrold has a small business and takes care to keep his turnover just below the VAT registration threshold. He has £15,000 income from a holiday let. He has been liable to register for VAT for some years.

If you are in this situation or may be, take advice from us now, it should be possible to take simple steps to avoid the need for a VAT registration.

Horratio has a holiday let in Europe. In the country concerned, holiday letting income is VATable and there is no de minimus for non-resident owners. Horatio is liable to substantial VAT and penalties.

Are you are in this situation? or may you be in the future? Take advice from an accountant in that country now.

Hornbeam Accountancy Services Limited Bidwell Road Rackheath Industrial Estate Norwich NR13 6PT

Whether you are a client or not, if we can provide further help or advice concerning any of the matters covered here, please do not hesitate to telephone us on **(01603) 720424** or email **info@hornbeam-accountancy.co.uk**