

## STARTING A PRIVATE PRACTICE

# A tax on all your houses

Many consultants and GPs own property other than their main residence, but frequently the tax position on these properties is not fully understood. **Ian Tongue** explores the more common types of property owned and their tax treatment

THE MAIN types of property held are:

- Main residence;
- Second home;
- Buy to let (investment property);
- Previous main residence, now buy to let;
- Holiday letting (UK or foreign).

Each of the above has different tax treatments which must be understood before any decision-making can take place.

## Main residence

One's main or private residence should not usually be subject to capital gains tax upon subsequent sale, although there are certain exceptions to this where the tax relief is restricted. These include:

- Garden and grounds in excess of 5,000 square meters (roughly a football pitch);
- Part of home used exclusively for business;
- Property has been let out (although letting relief available – see below);
- Property bought for quick sale.

The capital gains tax relief available on your main residence is known as 'private residence relief'.

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## Second home

A second home is usually for family enjoyment rather than a main residence and therefore is more likely to be subject to capital gains tax.

However, as recently highlighted by the MP expense scandal, certain provisions are available to 'nominate' a second home to HM Revenue and Customs within two years of purchase as your main residence, hence providing the capital gains tax private residence relief enjoyed on a main residence.

This method has been widely publicised as 'flipping' a home, which for most people who purchase both properties is a welcome provision, but is distasteful when the second home is funded by the taxpayer!

## Buy to let

Buy-to-let properties are investments and will be subject to capital gains tax upon subsequent sale – assuming, of course, a rise in value.

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simple selling price less cost with an annual exemption being deducted, currently £10,100 (or part thereof if other gains in year).

Income derived from rental must be declared on the property owner's self-assessment income tax return form. Any profit after expenses is subject to income tax.

If the property is loss-making, these losses can be offset against other profit-making properties or carried forward against future property profits from rental. But note that losses derived from rental cannot be offset against capital gains tax upon sale.

## Main residence now rented

Many doctors keep their former family home either as an investment or, as recently experienced during the housing downturn, because of economic conditions.

When a former main residence is rented out, a subsequent sale becomes potentially subject to capital gains tax, but a number of reliefs are available.

The first relief relates to the private residence relief described above. This exempts the time living in the house and the last three

years of ownership. Therefore, if you sell your former home within three years of leaving it, no capital gains tax should be payable subject to the restrictions previously described.

If the property is rented out for more than three years, capital gains tax becomes more of an issue but a further relief is available, called 'letting relief'. The maximum letting relief available is the lower of:

- £40,000;
- The amount of private residence relief due;
- The amount of gain you have made on the let part of the property.

The above applies to each owner where the property is held jointly or as tenants common.

## Simple example:

Former home sold and a gain of £200,000 made. The property was owned for 15 years in total with five years having been let out.

In the above example, the private residence relief (PRR) would be the ten years of occupancy plus the last three years. Therefore the PRR would be  $13/15 \times £200,000 = £173,333$ .

The remaining £26,667 would be given letting relief in full, as it is lower than £40,000 and the PRR relief of £173,333. In the above simple example, no capital gains tax would be due.

## Holiday letting

A UK property used as a furnished holiday letting has historically been given preferential treatment for tax purposes when compared to a 'buy-to-let' property.

Provided the criteria for being classified as a holiday letting have been met – which include days available to the public and actual days let – any losses made could be offset against other income in the same tax year.

This treatment is to reflect that a business is being run and therefore it is important that the property is run as a commercial venture.

However, in the last Budget, the ability to offset losses has been withdrawn from 6 April 2010 (2010-11) and the property is no longer regarded as a 'business asset'. But in order to align the UK tax system with other European Economic Area (EEA) countries, the Government has been forced to allow losses generated from foreign furnished letting (within the EEA) to be offset against personal income.

This applies not only for 2008-09 and 2009-10 but also allows a retrospective claim for the previous six tax years. You should speak with your accountant if you may be affected.

If you are considering selling property of any kind, speak with your accountant to ensure that any tax planning has been put in place prior to sale.

## ■ Buying property overseas, p34

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