

Capital Gains Tax and Gifts of Properties

Capital Gains Tax (CGT) is payable on the profit or “gain” which you make when something of value is sold, given away or disposed of. CGT is not normally payable when you sell or dispose of your own home, but it can be payable on any other properties which you sell or give away. It is an issue for anyone who has inherited a property, for example through the will of a relative, which is not their principal residence and is thinking about the options they have for the property. It is likely that Inheritance Tax (IHT) would have been payable when that person inherited the property. Now CGT may apply to what they propose to do with it, so it is a very important issue which if not properly advised upon, could see the Treasury recovering a large amount of tax in total on the property.

CGT on Property Transactions

When your own home is sold or disposed of it will usually satisfy the Private Residence Relief exemption from paying CGT. If the property has been your only home and you have not used it for any other purpose, no CGT should be payable. Circumstances where CGT may be payable on the disposition of your home is where:

- the garden or grounds, including the site of the house, are larger than 5,000 square metres (roughly the size of a football pitch)
- you've used any part of it for business purposes only
- you've taken in more than one lodger at a time
- you've let out all or part of the property
- the main reason you bought it was to make a profit from a quick sale.

Where you feel that the disposal of your property will not meet the requirements for this exemption, careful planning should be made when disposing of the property.

Gifts of Property

As part of CGT regulation, every individual is allowed an annual exemption from CGT. This means that gains made up to and including that value are not chargeable for CGT. The annual exemption for 2009/10 is £10,100. Russell-Cooke can therefore advise you on how much of your property you can dispose of without paying CGT.

How can Russell-Cooke help?

If you are planning a disposal of a property which does not meet the private residence exemption Russell-Cooke can help to reduce your CGT liability by drafting deeds of gift which avoid CGT. For example:

Mr Smith is a widower and would like to make a gift of a property he owns to his daughter Jane. Mr Smith inherited the property ten years ago from his father. The value of the property when he inherited it was £200,000. The property is currently valued at £250,000. Therefore the chargeable gain made on the property which is subject to CGT is £50,000. Using his annual exemption of £10,000, Mr Smith could give away 20% of his property to Jane free of CGT.

If you wish to talk to someone about Capital Gains Tax then we are happy to advise you, in consultation or in writing. For more information please contact:

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