

## Tax Tips

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### Put your Property into Trust

Many people have lived in properties that they have subsequently rented out. This week's tax tip highlights a tax efficient way of reducing their potential CGT bill by using trusts.

#### Principal Private Residence (PPR)

The property that you reside in as your main residence benefits from exemption from capital gains tax.

Even if you have lived there for a period of time but have also rented it out whilst you lived elsewhere, some, if not all the gain will be exempt from capital gains tax. The reliefs are as follows:

- PPR relief for period that the individual has lived there.
- Last 3 years free of CGT.
- Lettings relief of up to £40,000 (if joint ownership this can be up to £80,000).
- Taper relief
- Annual CGT exemption.

The benefit of the above reduces over time where the property is let out in future years. Assuming property prices do not increase at the rate that they have done in the last few years, this can also cause a problem in terms of "tainting" the principal private residence relief.

#### How come?

As your period of ownership of the properties extends, your period of qualification for the purposes of principal private residence relief as a proportion of the gain reduces, increasing the potential tax liability. If you were to take no further action, any future gain for CGT purposes will be time apportioned between the period that qualifies for PPR relief and that which does not. Take the following scenario:

- Cost of house in 1998 - £200,000
- Value of house today - £450,000

- Assume property will be sold for £600,000 in 2014
- If the property were sold today the gain would be £250,000. Assuming the husband and wife owned the properties jointly and lived there for one year, the gain would tax-free!

#### This is because:

The last 3 years plus the period of residence together with lettings relief exempt a gain totaling £246,666. After using the annual exemptions, this brings the gain to zero.

If the property is sold in 2014 for £600,000, the tax would be £46,240 at 40% on a gain after reliefs of £115,600.

If, however, the property were to be placed into trust in 2004 (tax free, as above, at a value of £450,000), the trust will make a gain of £150,000 over the period from 2004 to 2014. This gain can be reduced by any period of occupation by a beneficiary plus the last three years plus lettings relief plus taper relief plus annual exemption, dramatically reducing the liability below the above figure.

#### So what needs to be done?

If you believe the rate of house price inflation going forward will be lower than in the previous few years, the property could be gifted into a trust. A downside however is that there will be a stamp duty land tax charge when transferring the property into the trust, on the amount of any mortgage outstanding.

*Health Warning – This is a simplistic analysis of a complex area of capital gains tax, and professional advice should be sought before acting on any of the information contained herein. There may be other tax implications. In addition, you need to consider your view as to how house prices going forward will fluctuate.*

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