Capital Gains Tax on property when selling

Will you have to pay capital gains tax on property when you sell? The short answer is, it depends. Read on to find out if you'll have to pay capital gains tax, and if this is the case, how you might be able to reduce your tax bill. We also look at how recent changes announced by the government may affect how much you have to pay.

What is capital gains tax and when do I pay it?

You pay capital gains tax when you sell an asset that has increased in value since you bought it.

Usually, when you sell your main home (or only home) you don't have to pay any capital gains tax (CGT) due to private residence relief.

However, you'll usually need to pay capital gains tax on property if you're selling a buy to let property or second home – read on for more information on these.

When I might have to pay capital gains tax on my UK home?

In some circumstances you may have to pay capital gains tax when you sell your main home. For example:

The home includes a lot of land/additional buildings (5000 square metres or more)

You've sub-let part of it (but having one lodger doesn't count)

Part of your home is exclusively business premises

You bought it just to make a gain (e.g. if you are a property developer)

You have another home that could be considered your main residence

Some of these points may be open to interpretation and dispute, so if you are in any doubt it is sensible to seek advice. An independent financial/ tax adviser can give you their unbiased view on whether your home will be exempt from CGT.

Find an IFA

You don't have to make life's big financial decisions alone. Get the right IFA for you today with our partners at Unbiased.

Find an IFA

Do I pay capital gains tax on property when selling my second home?

Generally, yes. If HMRC decides that a property isn't your main residence, you will have to pay capital gains tax (CGT) on any gain in its value above your CGT allowance (after any deductions have been taken off) when selling a second home.

I'm selling a Buy To Let property – do I pay capital gains tax?

Generally, yes. If your buy to let property has risen in value by more than your capital gains tax allowance by the time you sell it (after any deductions have been taken off) you'll have tax to pay. See our guide for more advice on what to consider when selling a buy to let property.

Do I have to pay capital gains tax on property that's inherited or gifted?

If you give a property to your spouse or civil partner, or to a charity, there won't be any CGT to pay.

If you inherit a property (and any inheritance tax due has been paid by the estate) then there won't be any further tax to pay until you sell the property. The gain will be measured from the date at which you acquired the property.

While if you sell a property that was occupied by a dependent relative, then you may not have to pay CGT. Ask your adviser about this.

You don't have to make life's big financial decisions alone. Get the right IFA for you today with our partners at Unbiased.

Capital gains tax rates on property

Capital gains tax rates on property vary based on a number of factors, such as your income and size of gain.

Basic-rate taxpayers pay 18% on gains (not the total sale price) they make when selling property.

Higher and additional-rate taxpayers pay 28%.

And it's important to note that any capital gains tax will be added to your other income when calculating your income tax band for the year so this may push you into a higher bracket.

What is the capital gains tax allowance?

All taxpayers have an annual capital gains tax allowance, which means you can earn a certain amount tax-free. And you only have to pay capital gains tax (CGT) on gains that exceed your annual allowance.

In the tax year 2022-2023 this allowance is £12,300, this is the same level as 2021-2022. This means your property can increase by this amount before any CGT will be payable on the sale. Any amount above this will incur CGT property rates.

And couples who jointly own assets can combine their allowances, potentially allowing a gain of £24,600 without paying any capital gains tax.

You're not allowed to carry over any unused CGT allowance into the next tax year – so if you don't use it, you'll lose it.

However, it was announced in the 2022 Autumn Statement this allowance will be cut to £6,000 per person in 2023-2024. Then down to £3,000 per person in the tax year 2024-2025.

How much CGT will I pay – and how can I reduce my bill?

With capital gains tax on property, it's charged on the gains rather than the sale price. So to work out your gain, deduct the amount you originally paid for the property from the sale price. But it's important to note there are various ways you can minimise or even eliminate a capital gains tax bill.

1. Deducting certain buying and selling costs: It is possible to deduct some costs when working out your CGT bill including conveyancing fees, estate agents' fees, and stamp duty incurred when buying the property. Costs involved with improving assets, such as paying for an extension, can also be taken into account when working out your taxable gain. However, you're not allowed to deduct costs involved with the upkeep of the property. And you cannot deduct certain costs, like interest on a loan to buy your property.

2. Offsetting losses you've made when selling other assets. For example if you own several properties and make a £30,000 loss when selling one of them, you can use that against the gains you make when selling another property and reduce your overall CGT bill. However it's a good idea to ask your independent financial adviser about this to make sure you get it right.

3. Consider joint ownership with your spouse. Remember that everyone has a CGT allowance, so if you are the sole owner of a property, you can double your allowance by sharing ownership with your spouse.

4. Note the different CGT bands. Basic rate taxpayers pay lower rates of capital gains tax on property so if you are higher-rated and your spouse isn't, you could reduce your CGT bill by transferring all or part of the property into their name. Ask your adviser about the most efficient way to do this, to make best use of both your allowances.

5. Time your sale carefully. If you have used up some or all of your CGT allowance for a particular year, consider delaying the sale of your property to the next tax year.

6. Nominate the property as your main residence. If you own several properties and wish to sell one, you may be able to reduce or eliminate the CGT bill by nominating it as your main residence in advance. The rules on doing this are fairly strict, so talk to your adviser about how to do this properly.

7. Letting Relief: If you have lived in your home at the same time as letting it to tenants, you might be able to claim Letting Relief, which will reduce your capital gains tax bill.

An independent financial/ tax adviser can explain how you may be able to reduce your capital gains tax bill.

How do I calculate my capital gains tax bill?

Working out exactly how much capital gains tax (CGT) you have to pay means doing a few sums.

If you're a higher-rate taxpayer, it's quite simple. Just subtract your CGT allowance and any allowable deductions from your gain, and your bill will be 28% of the remainder.

If you're a basic-rate taxpayer, it's a bit trickier. You'll need to work out if your gain-minus-allowance will lift your income into the higher-rate band. Everything above the band will be taxed at 28%, while everything below it will be taxed at 18%. Your adviser can help you calculate it accurately.

However, it's important to note these figures are based on selling a residential property. Other assets may be calculated differently.

When do I have to pay my capital gains tax bill?

If you have capital gains in a particular tax year, you should apply to submit a tax return if you don't do so already. And you must report and pay any capital gains tax due on UK residential property within 60 days of selling the property.

You may have to pay interest and a penalty if you do not report and pay on time.

Selling overseas property

So what happens if you're selling a property abroad? You're also liable to pay capital gains tax on property when you sell overseas if you're a UK resident. However there are special rules if you're a UK resident but your permanent home is abroad. And while you may also have to pay tax in the country you made the gain you may be able to claim relief if you're taxed twice.

Find a local independent financial/ tax adviser through our partners at Unbiased. They've got more than 27,000 regulated advisers on their platform and can find you the right match for the advice you need.