

TAX ASPECTS OF YOUR HOME

Mortgage interest

Tax relief is no longer available on interest on loans used to buy your home.

Letting part of your home

Under the 'rent a room' scheme, income from letting furnished rooms in your home will be exempt from tax if the gross annual rent does not exceed £4,250 (£2,125 if you share the income).

If you are letting to lodgers who live as part of the family, there will be no loss of capital gains exemption. Otherwise, there may be some restriction.

Capital gains

Your main residence is exempt from capital gains tax when you sell it, provided it has been your only or main residence during the whole period of ownership (or since 31 March 1982).

Various rules allow periods of temporary absence to be disregarded.

If you have more than one house

You may elect which house is to be your main residence (i.e. exempt for capital gains tax) within two years of acquiring the additional residence. Otherwise the question must be decided on the facts at the time of disposal.

So long as a house has at some time been your main residence for capital gains tax, the last three years of ownership are counted as owner-occupied.

It may be beneficial for a married couple to own the non-exempt residence jointly as each will be entitled to the annual capital gains tax exemption.

Partial use for business

If you use part of your home *exclusively* for business, interest on the relevant portion of the borrowing will be allowed as a business expense.

In these circumstances, a similar proportion of the capital gains exemption will be lost. However, if you use no rooms *exclusively* for business purposes, the full exemption will normally be preserved.

Selling adjoining land

The capital gains exemption extends to grounds not exceeding half a hectare (about 1.2 acres). A larger area may be exempted if it is appropriate to the size and character of the house. Exemption is lost if the house is sold first and the land later.

Inheritance tax

Unfortunately, the favourable concessions for income tax and capital gains tax do not extend to inheritance tax.

The main problem is that it is very difficult for a person to give away property but still continue to occupy it.

You could consider moving to a smaller home, creating a tax free gain that can be given away, or to reduce the value of the home by mortgage and give away the proceeds.

Clearly these are drastic steps, and underline the fact that inheritance tax planning is better directed at assets other than the family home.

Please contact us if you would like more help or advice in this area.

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