



Capital gains tax: changes to the threshold amount for ATED-related CGT

Who is likely to be affected?

Certain companies, partnerships with company members and managers of collective investment schemes which own residential property worth over £500,000 that does not form part of a genuine commercial activity, or is not used to house employees of that activity.

General description of the measure

The measure reduces the threshold on the proceeds of sale of a residential property above which capital gains tax (CGT) is payable, where the annual tax on enveloped dwellings (ATED) has been paid on the property.

Policy objective

The measure ensures that a seller's liability to CGT when they dispose of a property continues to be linked to their previous liability to ATED on the same property. This improves the fairness of the way property is taxed.

Background to the measure

Budget 2014 announced two new bands for ATED to bring properties worth between £500,000 and £2 million into the charge. It also announced that the ATED-related capital gains tax charge would apply to properties in the new ATED bands. The Tax Information and Impact Note on those changes was published on GOV.uk on 19 March 2014.

Detailed proposal

Operative dates

The measure will have effect in two stages. The threshold amount for consideration received will fall from £2 million to £1 million for disposals on or after 6 April 2015, and then to £500,000 for disposals on or after 6 April 2016.

Current law

Under sections 2B-2F and Schedule 4ZZA of the Taxation of Chargeable Gains Act 1992 (TCGA) a person other than an individual may be liable to CGT when they dispose of a residential property for consideration in excess of a 'threshold amount'. This threshold amount is currently £2 million (section 2D). Where a property was owned when this CGT became chargeable (in April 2013) gains are 'rebased' so that earlier increases in value are not charged to tax by section 2B.

Proposed revisions

Legislation will be introduced in Finance Bill 2015 to amend section 2D TCGA so that the threshold value for disposals on or after 6 April 2015 will be £1 million and for disposals on or after 6 April 2016 £500,000. Schedule 4ZZA TCGA will be amended to preserve the principle that increases in a property's value during a period before it became liable to ATED will not be charged to CGT under section 2B.

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	+10	+95	+50	+45	+90	+140
	<p>These figures are set out in Table 2.1 of Autumn Statement 2014 as part of <i>Enveloped Dwellings: Increased charge for properties over £2m</i> and have been certified by the Office for Budget Responsibility. The figures incorporate the yield from <i>Capital gains tax: changes to the threshold amount for ATED-related CGT</i>. More details can be found in the policy costings document published alongside Autumn Statement 2014.</p>					
Economic impact	<p>The measure is not expected to have any significant economic impacts.</p>					
Impact on individuals, households and families	<p>Individuals are not directly affected as they are not within the charge to this tax. A small number of individuals will be indirectly affected through their interests in companies, trusts investing via companies, and collective investment schemes which hold residential property worth between £500,000 and £2 million.</p> <p>The measure is not expected to impact on family formation, stability or breakdown.</p>					
Equalities impacts	<p>HM Revenue & Customs (HMRC) does not hold information on the protected characteristics of those who hold residential property through envelope entities such as company vehicles. The measure is not expected to have any equality impacts.</p>					
Impact on business including civil society organisations	<p>Unincorporated businesses will be unaffected by this measure and will have no self-assessment requirement. Most corporate businesses do not buy, hold or sell residential property worth over £500,000 and will be similarly unaffected.</p> <p>The small number of corporate businesses that do buy or hold residential properties worth more than £500,000 will in most cases be able to claim relief against the charges in a self-assessment return each year. They will not be required to accurately value residential properties eligible for relief and the administrative burden in most cases should be negligible.</p> <p>The measure should not significantly impact on charities. Any that may hold residential properties in this price range can claim relief from the charge, providing the property is used for charitable purposes.</p>					
Operational impact (£m) (HMRC or other)	<p>HMRC will incur some costs in implementing this measure but these are not anticipated to be significant.</p>					
Other impacts	<p><u>Small and micro business assessment:</u> many of the companies used to hold residential property are special purpose vehicles which own a single property, have few or no employees and do not undertake genuine commercial activities. These companies will be affected by this measure and by the complementary ATED measure which aim to discourage individuals from setting up such companies to hold such residential properties. However, where these (or other) companies carry on genuine commercial businesses, the available reliefs from the ATED charge aim to ensure that ATED, and hence CGT, will not be payable.</p> <p>Other impacts have been considered and none have been identified.</p>					

Monitoring and evaluation

The measure will be monitored through information collected from tax returns and tax receipts.

Further advice

If you have any questions about this change, please contact Rob Clay on 03000 570649 (email: rob.clay@hmrc.gsi.gov.uk).