CAPITAL GAINS TAX ON RENTAL PROPERTIES: A GUIDE FOR LANDLORDS.

IT'S ON THE HOUSE
WITH DAKEA

Whether you have just one or a wide-ranging portfolio, if you're considering selling any of your buy-to-let properties you need to be aware of the tax implications. Rental income is subject to Income Tax, but if you decide to sell or dispose of the property Capital Gains Tax (CGT) will apply.

The purpose of this guide is to outline the basic factors that need to be taken into account with Capital Gains Tax (CGT), and help you understand how CGT is applied, how it's calculated, what exemptions and reliefs can be taken advantage of and how you can reduce your tax liability. Which will enable you to make more informed decisions on buying, selling and managing your rental properties.

Capital Gains Tax and your properties

When you're selling a property in the UK, Capital Gains Tax can have a considerable effect on the financial outcome, so it's wise to know when it applies and how to manage it.

What is Capital Gains Tax?

CGT is effectively a tax on the profit or gain made from selling, transferring, gifting or otherwise disposing of an asset. For a landlord, that means paying tax on the profit you make from selling a property, which includes buy-to-let properties and can include any property that was at one time your main residence.

Main residences

Normally your main residence – the home you live in for the entire period you own it – is exempt from CGT, while it will apply to second homes such as holiday homes or buy-to-let properties, as well as inherited properties. If, however, you let out part of your main residence while you're living there or the property is rented out for a period while you're living somewhere else (such as working abroad, for example), then Private Residence Relief and Letting Relief may apply (for full details, see the following section).

Current rates of CGT on rental properties

The rate of Capital Gains Tax will depend on your income level and whether you pay basic or higher rate income tax.

If you're a basic rate taxpayer, you'll pay 18% CGT. If you're a higher or additional rate taxpayer, you'll pay Capital Gains Tax at 24%.

A certain amount of tax-free profit is allowed before you start paying CGT too, which currently stands at £3000.

Calculating Capital Gains Tax

Working out your Capital Gains Tax can be complicated, especially working out reliefs and allowances. For this reason it's always worth consulting an accountant or financial adviser to make sure the calculations are correct.

Three simple steps

In its simplest terms, there are three stages to calculating your CGT.

Determine the gain

This can be seen as a simplified formula:

Capital Gain = Sale Price – Purchase Price – Allowable Costs

'Allowable costs' includes acquisition and sale costs such as solicitors' fees and stamp duty, or estate agents' and legal fees; and any costs linked to major improvement work such as an extension (maintenance such as decorating does not qualify).

Reliefs and allowances

Once you've calculated the difference between the purchase price and sale price, you need to apply any reliefs and allowances.

These include the CGT allowance (the annual exempt amount outlined in section 1, which is £3000), as well as Private Residence Relief (PRR) and Letting Relief.

PRR may exempt part or all of the gain from Capital Gains Tax, if the property was your main residence for part of the time, or if part of the property was your main residence during your period of ownership.

Letting Relief is only available if the property is also your main residence, and you've lived in the property at some point while it was rented out. The maximum amount that can be claimed is £40,000, or £80,000 for married couples or civil partners.

Apply the CGT rate

After reliefs and allowances have been deducted, you'll have your Capital Gain figure. At this point, you need to apply the relevant rate of CGT, depending on your taxable income. If you earn up to £50,270pa, you'll pay 18% Capital Gains Tax; above that figure, the rate is 24%.

A simple example of how to work out the taxable gain is shown here, and the Government website also has a useful CGT on property calculator to help you.

Example:

Item	Amount
Purchase Price	£100,000
Sale Price	£150,000
Base Gain (Sale price - Purchase Price)	£50,000

Selling Costs	£3,000
Improvement Costs (Extension)	£10,000
Capital Gain (Base Gain - Costs)	£37,000

Annual Exempt Amount (AEA)	£3,000

Taxable Gain	£34,000

When to pay Capital Gains Tax

If you sell a property that's not your main home and owe Capital Gains Tax, you'll need to report and pay the due amount within 60 days of the sale, and if you fail to meet the deadline you may incur penalties and interest charges.

You can report and pay your CGT through the Government Gateway site, or by creating a Capital Gains Tax on UK property account. When you report your gain, you'll need to provide information including:

- The address and postcode of the property
- The dates you bought and sold the property (exchange and completion date)
- The value of the property when it was purchased and sold or disposed of
- Allowable costs incurred when buying, selling or improving the property
- CGT reliefs and exemptions you're entitled to

If you usually complete one, you'll also need to report the property sale as part of your self-assessment tax return.

Reducing your Capital Gains Tax Liability on rental properties

There are a number of strategies you can use to reduce the amount of CGT you owe. They include:

Setting up a limited company

CGT only applies to the sale of a residential property owned by individuals, so some buy-to-let landlords set up limited companies to manage their portfolios and reduce tax exposure. Profits made from selling properties through a limited company are liable for corporation tax, which is currently lower than the higher rate of CGT. Always seek financial advice if you're considering doing this.

Joint ownership

If you own the property jointly, each owner can use their CGT allowance, doubling the amount of gain that's tax-free.

Offset gains with losses

If you have capital losses form the sale of other assets, you may be able to offset them against the capital gain from your property.

Transferring ownership

Transfers of property ownership to a spouse or civil partner are not subject to Capital Gains Tax, and if they have a lower income they may pay CGT at a lower rate. If you're considering doing this, always seek financial and legal advice.

Gift the property to a family member

If you do so, it may not be subject to CGT immediately, but be aware that you may trigger Inheritance Tax or other tax liabilities.

Plan and use your allowances fully

Working with your accountant you can make the best use of your annual CGT exempt amount by planning property sales across different tax years. They can also keep you up to date with upcoming tax changes, such as tax bands, rates and CGT reliefs.

References

We'd like to acknowledge the following articles, which were used as reference for our guide:

'Capital Gains Tax on property – a guide for landlords', simply business.co.uk, October 2024

'Can I avoid Capital Gains Tax on my buy-to-let property?', unbiased.co.uk, January 2025

'Capital Gains Tax and when it applies', belvoir.co.uk, June 2024

'Your guide to Capital Gains Tax for landlords', taxassist.co.uk, August 2024

'Capital Gains Tax incurred on rental property', ukpropertyaccountants.co.uk, January 2025

For further in-depth information and the latest rates for Capital Gains Tax, we'd also recommend visiting gov.uk/capital-gains-tax/rates

KEY TAKE OUTS

- Capital gains tax (CGT) applies to profits from selling a buy-to-let property, with rates based on taxable income.
- Basic rate taxpayers pay 18% CGT, higher rate taxpayers 24%.
- If you sell a property and owe Capital Gains Tax you must pay it within 60 days of the sale, or risk penalties and interest charges.
- Reliefs like Private Residence Relief (PRR), Letting Relief and allowable deductions can help reduce your CGT liability.
- Setting up a limited company can lower tax exposure, with profits taxed at corporation tax rates instead of CGT rates.
- Consulting your accountant or financial adviser can help with proper use of tax reliefs and strategies to minimise your CGT legally.