

capital gains tax

September 2007

75%

Potential tax free profit if the property is sold after two years of purchase.

Capital gains tax (CGT) is potentially triggered by the disposal of property and can significantly reduce the final proceeds achieved by the vendor.

Whilst some may consider the valuation of a property for CGT an inexact science, it is in fact governed by strict guidelines. Since August 2002, all such valuations must adhere to the standards laid down by the Red Book, the valuation 'bible' of the Royal Institution of Chartered Surveyors.

Red Book requirements

The Red Book requires comprehensive and thorough valuation reports, with both the taxpayer's valuer and the Valuation Office expected to perform to the same high professional standards, and to apply the same definition of market value.

A well prepared report is far better received by the Capital Taxes Office and Valuation Officer than one that lacks this professional duty of care – and it is more likely to persuade them of the taxpayer's position.

The importance of case law

Given the potentially complex nature of valuation reports and the possibility of future litigation, valuers must have a detailed understanding of the case law that has evolved in recent years. If a case becomes contentious, the valuer may be required to submit an expert witness report, as set out by the RICS' Civil Procedure Rules, to resolve matters.

Calculating CGT, pre and post 1982

Any property acquired after 31 March 1982 is valued against that date for CGT purposes. CGT for properties purchased prior to that date is based on the gain in value achieved since they were purchased (allowing for indexation and costs), using the original purchase price as the benchmark.

Tax relief

Commercial property qualifies for a number of different tax reliefs of which the most important is business asset taper relief. In most cases, if a commercial property is sold after just two years, 75% of the profit is completely tax free.

Avoiding CGT altogether

The introduction of REITs (Real Estate Investment Trusts) have provided commercial property investors with a way of completely avoiding CGT on sales. British Land, for example, would have reportedly paid more than £300m in CGT on the sale of Meadowhall Shopping Centre in Sheffield, had it not converted to REIT status. Within three months of converting, it said it had reduced its tax liability by about £1.7bn.

PROPERTY TAXATION SERVICES FOR PROPERTY OWNERS

What we do

Our CGT experts have extensive experience of valuing property for this purpose and have negotiated with the Inland Revenue on a wide range of different scenarios. We formally adhere to the standards laid down by the RICS and keep abreast of case law to ensure we are in the best possible position to represent our clients.

We have developed a comprehensive database of market information for 1982, including physical characteristics of property and the highway network and planning regime at that time.

Our track record and specialist expertise

Case study: British Waterways

Gerald Eve has provided detailed valuation advice to British Waterways for the past eight years. Our valuation experts provide advice for both internal budgeting purposes, and for direct provisions to the Inland Revenue. In addition, we have negotiated numerous settlements with the relevant Valuation Officer, acting on behalf of the Inland Revenue.

During this time, we have provided in excess of 750 valuations, ranging from major development projects such as Gloucester Docks to 16-storey office buildings in central Birmingham.

Case study: De La Rue

Our valuers also recently advised on the valuation of five major properties on behalf of De La Rue. Having submitted them to the Inland Revenue, the Valuation Officer challenged our levels of value in four cases. Following subsequent negotiations, the Valuation Officer conceded that all our originally reported valuations should be adopted.

Other property taxation services

In addition to CGT advice, we can also advise on the following:-

- UK business rates – our rating experts saved our clients in excess of £1bn during the last Revaluation by appealing their rates bills; 90% have retained us to advise them on the 2005 Revaluation. We also manage the audit and payment of bills through our unique Rates Payment Management Service, currently amounting to £300m per annum for clients including the Co-operative Group, Tarmac and The Royal Bank of Scotland.
- global property taxation management – with our North American partner, AEC International, we can provide our clients – those with property interests in different countries – property tax advice and management expertise.

Our firm

Gerald Eve is a leading firm of chartered surveyors and property consultants operating from a network of nine offices across the UK. We were ranked 67th in the Sunday Times Top 100 Companies to Work For awards in March 2007, and have more than 330 staff.

Our clients – including over half of the FTSE100 – hold some of the largest property portfolios in the country. We provide advice to ensure that our client's operational and non-operational properties cost them as little as possible and deliver the maximum return possible.

For further information contact:



Simon Brand
Tel. 020 7333 6344
sbrand@geraldeve.com

7 Vere Street
London W1G 0JB

UK office network:

London (West End & City)
Birmingham Cardiff
Glasgow Leeds
Manchester Milton Keynes
West Malling