Accountancy firm proposes alliance with law firms to deal with property tax change

Tax experts warn that property investors in Scotland are facing an unexpected capital gains pitfall because of a little-known tax change.

Scottish accountancy firm Douglas Home & Co has warned that many face problems as they rethink their holdings, while unaware that the timeframe to pay any Capital Gains Tax (CGT) has been changed.

The firm believes that thousands of homeowners and their solicitors are already heading for a tax shock without even realising it, after selling second homes during the past 12 months.

Sheryl Macaulay

Sheryl Macaulay, a tax planning specialist and director of the company, is urging legal firms to forge alliances with accounting specialists to help deal with the issue.

She said: “People who are looking to sell, or have already sold, part of their property portfolio may find that they are due to pay their CGT bill far quicker than originally anticipated. The 30-day payment rule came into play in April 2020 but it has barely been registered outside of the accountancy world, some lawyers are simply unaware of it.

“Certainly, most of their clients won’t know a thing about this. Indeed, we suspect that many people who have sold second properties in the past year are blissfully unaware of the mounting penalties coming their way if they did not pay their CGT bill within 30 days.”

The changes were introduced with little fanfare and recent research showed that by January 2021 around 50,000 UK property tax returns were filed – with more than a third failing to comply with the 30-day time limit. Those who miss the deadline face penalty payments up to £300 or 5% of any tax due, whichever is greater.

Sheryl added: “Even those solicitors who do know about the change will still have problems trying to explain what it means to their clients. That’s before they actually have to wrestle with the complicated process.

“Any failure to report the capital gain within the strict 30-day deadline will see sellers incur penalties. It’s a stressful, costly and bureaucratic burden for law firms – with the possibility of furious clients when they realise they were not pre-warned about this tax hit.

“Perhaps the biggest legal firms, with dedicated tax departments, can take this in their stride. But for the majority of smaller and mid-size property solicitors it is likely to be major headache.”

Scotland has thousands of small-scale investors with one or more rental properties as part of their nest egg. However, if after the pandemic, they plan to sell up to fund lifestyle changes they may not realise the new tax obstacles which could await them.

The tax changes affect the sale of second homes and rental properties by UK residents. Taxpayers are now obliged to report any estimated CGT liabilities and to make payment within 30 days of disposal of the property.

Calculations can be complex because of a wide range of variables, while submissions must be made digitally, with the setting up of online accounts adding further layers of complexity.

Sheryl says Douglas Home & Co’s eight offices across Scotland and the north of England have long experience of working with legal firms. They are now expecting a rush of further requests as the new tax implications become more widely known.

She added: “There’s a perfect storm brewing. The property market is buoyant at the precise time that many investors are thinking of selling up. Meanwhile, they are exactly the people who are going to be hit by the time pressure to report capital gain.

“It doesn’t bear thinking about how this could trip up ill-prepared solicitors. It will tie them in knots and could lead to very unhappy clients if details are registered wrongly or late and they end up with penalties on top of an unexpected tax bill.

“The entire process is far from straightforward, so the smart move is to get buddied up with tax experts as soon as possible. We can definitely help – and the earlier we get involved the better.

“As well as making sure any new cases are dealt with properly, we can review property sales from the past years and make sure problems are minimised."

Douglas Home & Co was founded and remains headquartered in the Scottish Borders where it has four offices, with further bases in Edinburgh, East Lothian, Cumbria and Northumberland. It has 70 staff and saw a 4% rise in turnover to £4million for the financial year 2020/21.

That keeps it on track with its ambitious business plan to occupy a market gap it has identified between smaller accountancy firms and the big four. Its ethos is to provide a more personalised service than big firms, but a more expansive range of services than smaller practices.