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Cashing in on that place in the sun

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AT a time when sterling has fallen to an all-time low against the euro, Britons with property in continental Europe are selling up to take advantage of the weakened pound.

Despite property prices falling in Europe, Britons with property abroad stand to make up to a 22% profit simply by selling their property at the same price they bought it at, according to exchange specialist Foreign Currency Direct.

Peter Ellis, the group's chief executive, commented: "We have noticed a significant increase in the number of our British clients selling property abroad, with many willing to significantly discount the sale price of their property in order to secure a sale.

"UK owners of foreign property can now afford to drop the value by as much as 22% and still regain more sterling than they originally invested in the property."

He said it was possible to secure a forward contract, locking in favourable exchange rates for a future sale.

"This means that anyone thinking about selling their property within the next two years can secure a great rate now, even if they are keen to wait a while before selling up."

Spain's Ministry of Housing last month reported sales in the third quarter of last year down 36% on 2007 and new project launches down 40%, with hundreds of builders going out of business.

Owners also face potential tax traps. "Gains on overseas assets are calculated using spot exchange rates on the dates the assets are sold," said Neil Whyte, tax partner at accountant PKF.

"Overseas owners face an unexpected UK capital gains tax liability."

For example, a Briton who bought a Spanish property in January 2007 for 1.25m, then equal to £854,818, and sold this month for 1m, equal to £966,744, would make a 250,000 loss but £111,926 sterling profit, incurring a capital gains tax bill of £18,419 payable on January 31, 2010.

"If owners reinvest all their equity in a new overseas property, they may have difficulty finding the cash to pay the tax. Even those aware they have a tax problem will often realise a smaller amount of post-tax equity from their properties than they expected.

"Worse, if owners sell an overseas home and leave their equity in a foreign currency bank account, they could face a double hit if sterling recovers before the tax is payable. If they cannot pay the tax from UK funds they would have to convert some of the sale proceeds to sterling at a disadvantageous rate."

There may also be problems with inheritance tax. Estates and heirs of non-domiciled owners may face inheritance tax in two jurisdictions. Spain, for example, taxes individual inheritors while other countries tax the estate.

Mark Roach, of Cheshire-based Wincham Investments, suggests forming a UK private company and gifting the property to it, so avoiding Spain's 7% transfer tax and the company paying only UK tax.

Even with existing currency exchange rates, though, property abroad is a buyers' market, according to foreign exchange specialist FC Exchange. With overseas rental properties experiencing good business as fewer people buy abroad, a foreign buy-to-let could bring a regular income into the UK.