AF1 CGT 2021/2022
Part 3: Principle Private Residence Relief

The milestones for this part are to understand:

- When Principle Private Residence Relief can be claimed
- How to calculate the tax liability if there were periods when PPR relief wasn't available.
- Lettings relief
- When CGT on property sales becomes payable.

Qualifications to get PPR relief. (PPRR)

An individual's own home is normally totally exempt from CGT. Strictly speaking the gain is subject to CGT but it is wiped out by applying PPRR. (100% PPRR) To qualify for PPR relief:

- the house must be the individual's main home where they live permanently**.**
- None of it has been let out (apart from taking in a lodger)
- The grounds including all buildings are less than 5,000 square metres.

For most individuals there are no issues. They own one house and live there permanently. There is a general exemption for individuals who live in job related accommodation but own a house with the intention of living there after retirement. This will probably apply to a member of the Armed forces. The house they own will still qualify as their PPR even though they aren't currently live there.

Clearly you can only have one PPR at any one time. If an individual owns more than one house they must tell HMRC which one is to be their PPR within two years of commencing ownership of the second house.

If they don't, HMRC will make the decision based on

- Where they spend the majority of their time
- Which address they use for correspondence
- Where they spend their time
- Where they are registered to vote
- Where they are employed
- How each residence is furnished?
- Where they are registered with their doctor or dentist
- Which address is used for their car insurance.

Two people who aren't married can make a separate decision as to which property is their PPR. A married couple can only have one PPR between them

There is a relaxation of the one property rule if someone temporarily owns two houses because of a house move. The period from purchase to moving in will be deemed residence provided it doesn't last more than a year and is immediately followed by actual residence.

A property bought purely for investment purposes that was never occupied by the owner will never qualify for PPR relief.

How to work out the taxable gain when 100% PPRR is not available.

If the property was not the owner's principle private residence for the whole period of ownership, then part will qualify for PPR relief and part will not. The ownership will be split into **exempt** and **non-exempt periods.**

Graham has his own home and then marries Barbara. He moves into her house and lets out his own. Her house now becomes his PPR. When he sells his first house, tax will be payable as it wasn't his PPR for the whole period of ownership.

When this situation arises the first step is to calculate the gain for the whole period of ownership.

Graham bought his property for £100,000 and paid £20,000 in additional costs. He sold it for £210,000 incurring £10,000 costs. The gain was £100,000

Next the number of **months** that qualify for PPR relief is calculated using the formula

$$\text{Total Gain} \times \frac{\text{Number of months that qualified for PPR relief}}{\text{Total number of months of ownership}}$$

This figure is the amount of PPR relief which is then deducted from the total gain.

Graham owned the property for 120 months (10 years) but assuming that for 24 months it hadn't been his PPR so the amount PPR relief is £100,000 x 96/120 =£80,000

The total gain is £100,000 so deducting PPR relief of £80,000 means £20,000 is subject to CGT. The annual exemption is then applied to this. This would give a chargeable gain of £7,700 which is taxed at 18% or 28% as it is residential property

Calculating the amount of PPR relief

The main requirement to get PPR relief is that the property is the owner's main home and they live there. But it doesn't always follow that PPR relief will be lost if the owner isn't living there.

- The period prior to April 1st 1982 is ignored so if a property was purchased before then the acquisition price would be the value on April 1 1982 and the period of ownership starts on that date.

- The last **9 months** of ownership are exempt if at some time the house had been the resident's PPR. This applies to all sales on or after 6 April 2020 but is increased to 36 months if the owner has moved into a residential care home.

Jean married Brian moving into his house in May 2016 and decided to let out her own house. Jean sold her original house in November 2020. Since it had been her PPR the last nine months qualify for PPR relief. Although she was absent from her original house for four years six months (54 months) only 45 months of her ownership would not get PPR relief.

Other periods of absence can still get PPR relief provided:

- you have no other PPR at the same time
- immediately before and after the period of absence the owner lived in the property.
- the periods of absence didn't exceed set limits.

These limits are:

- periods of absence for up to three years for any reason
- unlimited periods when the owner was required by reason of employment to live abroad.
- periods of up to four years when the owner was required to live elsewhere in the UK due to work.

Jack wins the lottery and decides to go on a round the world tour. He is away for two years and lets out his property. He then returns and continues to live in the property. The two year absence would qualify for PPR relief.

This example would be exempt under the "three years any reason rule". However, the three years represents the **maximum period** over the whole time of ownership. For example, if Jack were to have another two year trip and then return home, only one more year would qualify for PPR relief. Similarly, if he has a single absence lasting 4 years, only three years would get PPR relief.

If Jack never returned to his original house and subsequently sold it, he could not use the "three years" exemption but could still claim exemption for the last 9 months of ownership'.

To qualify for this and the other exemptions, you must not have had another PPR during your absence.

Kate owned a flat before buying a house with her boyfriend in April 2017. In her absence she let out her flat. Her boyfriend's house is now her PPR.

They split up in April 2020 and Kate went back to live in her flat.

When she comes to sell the flat the three years she was absent will not get PPR relief as she had another main residence during that period. She could still claim the last 9 months so 27 months will not get PPR relief

Kate might argue that her old flat remained her PPR even though she was living somewhere else. HMRC would probably disallow that on the grounds that when she moved in it was intended to be a permanent arrangement.

The "four years work in the UK" exemption is also the maximum exempt period over the whole length of ownership. There is a slight modification of the requirement to return to the original property under the following situation.

Jane bought a house in Reading in June 2005 and lived there until June 30 2010.

Her employer then required her to work in Edinburgh and she lived in rented accommodation whilst there. In October 2014 her employer transferred her to Inverness and again she rented a flat until September 2020 when she sold the property in Reading and bought a house in Inverness

It would seem her house in Reading would not qualify for PPR relief after July 2009 apart from the last 9 months of ownership because she did not return. However, as her employer required her to move to another location, she still qualifies for four years PPR relief on the grounds of UK work related absence.

Her period of ownership would be broken down as follows:

June 2005 to June 30 2010. PPR relief as living there.
July 1 2010 to June 30 2014, PPR relief as absent because of UK work.
July 1 2014 to December 31 2019 No PPR relief as absent
January 1 2020 to September 31 2020 PPR relief as last 9 months

Whilst there is no limit to the length of absence for work outside the UK, the owner must be living in the house before and after the absence to qualify for PPR.

Phil is offered a job in Australia on a 5 year contract. If he lets out his property and then returns and occupies the property the whole period qualifies for PPR relief.

If though he came back to the UK and did not return to the property but lived in rented accommodation before moving to Australia on a permanent basis, then only the last 9 months would qualify for PPR relief.

EXAM HINT

The best way to tackle a PPR question is to construct a time line. The case study will start with the owner buying the property and living there. The period until, for whatever reason. the owner moves out will qualify for PPR relief.

The case study will end with the property being sold so the last 9 months will qualify for PPR relief. Candidates then need to assess what periods, if any, qualify for relief.

Tom bought his house on 1 May 2000 and lived there until 1 May 2010. He then moved to stay with his son in the USA until 1 November 2012 before moving back into the house. On October 1 2016 he moved in permanently with his daughter at her house as his health had deteriorated. He sold the property on May 1 2020 (Total ownership 240 months)

1 May 2000 to 1 May 2010 (120 months) gets PPR as he was living there.
1 May 2010 to 1 November 2012 (30 months) gets PPR under 3 year rule and because before and after it was his PPR.
1 November 2012 to 1 October 2016 (47 months) gets PPR as living there.
1 October 2016 to 1 August 2019 (34 months) does not get PPR relief as he did not move back
1 August 2019 to 1 May 2020 (9 months) get PPR under last 9 months rule.

Therefore 206 months will qualify for PPR relief and in monetary terms this would be
Total gain x 206/240

Letting out rooms

Letting out a room to **one** lodger will not result in a loss of PPR relief. If the owner lets to more than one person at a time HMRC will consider the property to be a "rooming or boarding house" and some PPR will be lost. This will also apply if the owner lets rooms in their house using an app like Airbnb.

Maisie is a widow and to supplement her income she lets out three rooms in her house. She later decides she wants to downsize so sells the property making an overall gain of £300,000. Although it is her sole home and she has lived there continuously, because part of it was let to more than one lodger at a time, she won't get 100% PPR relief.

The starting point is to calculate the percentage of the whole property that was let. In this case we'll assume that the let rooms comprised 25% of the property. Therefore only £225,000 of the gain qualifies for PPR and £75,000 is subject to CGT.

However, this can be reduced or eliminated by claiming **lettings relief**. However, lettings relief cannot turn a gain into a loss

Maisie qualifies because she meets the three requirements.

- She is the owner of the property.
- She was living there whilst it was let.
- The property was let commercially.

The relief is the lower of the amount of:

- 100% of the PPR relief (which in this case would be £275,000)
- The same amount as the chargeable gain made whilst letting out the rooms.
- £40,000

Clearly the first won't apply in this case. The second point is significant because it takes account of the time the property was let.

Maisie owned the house for 40 years (480 months) but only let rooms for 12 years (144 months)

The gain made whilst it was let is 144/480 x £300,000 = £90,000
Therefore, the amount of Lettings Relief is £40,000

Her liability is:

Gain subject to CGT	£75,000
Less lettings relief	£40,000
	£35,000
Less annual exemption	£12,300
Taxable gain	£22,700

Assuming she is a higher rate tax payer her liability would be:

£22,700 @ 28% = £6,356

If though she had let the rooms for 5 years (60 months) then the gain made whilst the rooms were let would be:

60/480 X £300,000 = £37,500 and as this is below £40,000 it will be the lettings relief available to Maisie

Gain subject to CGT	£75,000
Less lettings relief	£37,500
	£37,500
Less annual exemption	£12,300
Taxable gain	£25,200

Paying CGT on property disposal

The normal rule is that CGT is payable on January 31st after the end of the tax year in which the gain is made.

If residential is sold or gifted on or after 6 April 2020 the owner must complete a **Residential Property Return** and pay any tax within 30 days of completion. Technically this is a payment on account and a final calculation must be made on the normal 31st January date to take account of any other gains or losses.

This new deadline applies to both investment property and property which does not qualify for 100% PPR relief.

That concludes this part so you should now understand:

- When Principle Private Residence Relief can be claimed
- How to calculate the tax liability if there were periods when PPR relief wasn't available.
- Lettings relief
- When CGT on property sales becomes payable.

Sources and further reading

https://www.gov.uk/government/publications/private-residence-relief-hs283-self-assessment-helpsheet/hs283-private-residence-relief-2017--2

https://www.which.co.uk/money/tax/capital-gains-tax/capital-gains-tax-on-property-avuq96u1500f

https://www.taxinsider.co.uk/lettings-relief-tips-and-traps