AF1 CGT 2023/2024
Part 4: 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 Principle Private Residence Relief. (PPR)

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 PPR. (100% PPR) 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 don'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 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% PPR 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;** that is periods they get PPR and other times when they don't.

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 process is as follows:

1. Calculate the gain for the whole period of ownership.
2. Calculate how many months that qualify for PPR
3. The amount of the gain that get PPR is:

4. Total Gain x $\dfrac{\text{Number of months that qualified for PPR relief}}{\text{Total number of months of ownership}}$

5. The amount that is chargeable to CGT is the total gain less the PPR relief.

When you get PPR and when you don't.

The main requirement to get PPR relief is that the property is the owner's sole home and they live there but there are some exemptions.

- 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 is increased to 36 months if the owner has moved into a residential care home.

The following example will work through the process.

Jean bought a flat for £200,000 on July 1 2013. She lived there until July 1 2020 when she married Brian moving into his house. She decided to let out the flat. Jean sold the flat on July 2023 for £500,000.

She owned the flat for 120 months (10 years) and the gain was £300,000 (assume net of all costs)

She lived there from 1/7/13 to 1/7/20 (84 months) so that gets PPR.
As it was her PPR the last 9 months also get PPR.
Therefore 93 months of the 120 get PPR.

The amount of PPR is:

£300,000 x 93/120 = £232,500

The amount subject to CGT is £300,000 less £232,500 = £67,500

The annual exemption of £6,000 can be deducted so £61,500 is taxable and assuming Jean is a higher rate tax payer the tax due will be £61,500 @ 28% = £17,220

A few points to note:

- Always use months in calculating the time periods
- If a property was jointly owned the liability would be split 50/50,

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.

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.

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 <u>£40,000</u> £35,000 Less annual exemption <u>£6,000</u> Taxable gain £29,000 Assuming she is a higher rate tax payer her liability would be: £29,000 @ 28% = £8,120	

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	<u>£37,500</u>
	£37,500
Less annual exemption	<u>£6,000</u>
Taxable gain	£31,500

If the house was jointly owned any lettings relief could be applied to each owner's share and it would be possible for each to claim the maximum £40,000.

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 property is sold or gifted the owner must complete a **Residential Property Return** and pay any tax within 60 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 that 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