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ACCOUNTANTS &
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Changes to Principal Private Residence Relief

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Home Sweet Home

For many, owning and selling their own home is thought to be tax-free but, as always, tax is never quite as simple as that.

Principal Private Residence Relief (PPRR) is a set of tax rules which are designed to ensure that the sale of a person's home is exempt under certain conditions. Generally, if you own one home, live in it and sell it, any gain will be tax-free but suppose you lived elsewhere due to a work secondment and let your old home out, then what?

The existing rules can be complex but allow PPRR for a number of specific absences from the property, including periods of letting. The government is making a number of changes to the PPRR rules and we thought that we should make you aware of the more important ones below.

Broadly, all of these changes apply to transactions undertaken from 6 April 2020.

Change 1 – the final period of ownership

Generally, the final period of ownership of a person's home will be tax-free, irrelevant of whether it is actually occupied as such. The final period exemption will be reduced from 18 months to 9 months.

The rules which give 36 months' relief to those with a disability, and those in or moving into care, will not change.

Change 2 – lettings relief

The new rules state that where a gain arises on a person's home and, at any time in the individual's period of ownership:

- part of the dwelling-house is the individual's only or main residence; and
- another part of the dwelling-house is being let out by the individual as residential accommodation otherwise than in the course of a trade or business

then lettings relief may be due.

Effectively, this means that lettings relief will no longer be available for those periods where an owner has moved out of the property whilst it is let out to other individual(s) and therefore no longer shares occupation with a tenant or tenants.

Change 3 – need to report and pay tax

In addition to the changes to PPRR, the government is also introducing a reporting requirement on the sale of all UK residential properties. This would include residential investment property and also situations in which the sale of a person's home is not fully covered by PPRR.

In such situations a special return must be completed within 30 days of completion. In addition, if a person is required to make such a return and, as at the filing date for the return, an amount of tax is notionally chargeable, the person is liable to pay that amount on account on the filing date for the return.

Currently the need to report a capital gain and pay tax on the gain is 31 January following the tax year in which the disposal is made so the new requirements are a significant reduction in timescales.

Change 4 – transfers between married couples

The general rule for capital gains tax (CGT) is that transfers of assets between married couples and civil partners takes place at no-gain/no-loss. In addition, the PPRR rules provide that where one spouse makes a transfer of their only or main residence to the other, the receiving spouse inherits the other spouse's period of ownership of the dwelling even if that period started before marriage. This rule does not however apply to a dwelling which is not their main residence at the time of the transfer. There may be positive or negative effects of a transfer depending on the relevant circumstances.

To make the tax rules consistent, the new rule provides that when a spouse or civil partner transfers an interest in a dwelling to their spouse or civil partner (whether or not the dwelling is their only or main residence at the time), the receiving spouse or civil partner will inherit the transferring spouse or civil partner's ownership history, including their previous use of the property.

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Example of potential impact

The below example assumes a property that has been owned for 10 years. For the first 5 years the property was occupied as the owner's main home, for the final 5 years the property is let out. The individual is a higher rate taxpayer.
Originally, the property was purchased for £200k, a sale has now been agreed for £500k.

The difference between the tax liability depending on the date of disposal is shown below:

	Sold before 6 April 2020	Sold on or after 6 April 2020
Proceeds	500,000	500,000
Cost	(200,000)	(200,000)
Gain	300,000	300,000
PPR relief	(195,000)	(172,500)
Lettings relief	(40,000)	-
Capital gain	65,000	127,500
Annual exemption	(12,000)	(12,000)
Chargeable gain	53,000	115,500
CGT @ 28%	14,840	32,340
PPR periods:		
Months of occupation	60	60
Months of deemed occupation	18	9
Period of occupation	78	69
Period of ownership	120	120
Letting relief, lowest of:		
PPR relief	(195,000)	
Gain in let period	150,000	
£40,000	40,000	Lowest

Therefore, in the above example, the individual will pay an additional £17,500 in capital gains tax by selling the property after 6 April 2020.

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What to do next?

As can be seen, the above changes may be both complex and financially significant, particularly the changes to lettings relief which are effectively retrospective.

However, there is time to plan ahead. If you think that any of the changes may apply to you, you may wish to consider selling your property before the 6 April 2020 in order to take advantage of the more beneficial rules.

Finally, please note that for tax purposes, the date of disposal of a property is the date contracts are exchanged rather than the date of completion.

Should you have any queries or wish to discuss this further, please get in touch with your usual Jerroms contact.

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