

Time to sell? Principal private residence relief to become less generous

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Changes to principal private residence relief ('PPR') which are set to come into force from 6 April 2020 mean it may pay to get that property sold sooner rather than later.

The relief works to reduce or eliminate the tax paid on gains made on the sale of residential property. To qualify for the relief, broadly speaking, an individual must sell a dwelling-house which has been his or her only or main residence at some point during the period of ownership.

Two changes to the way the relief works are expected from April 2020.

The first relates to what is known as the automatic exemption. Where a property has only been the owner's main residence for part of his or her period of ownership, then PPR will only apply to a proportion of the gain made on a sale of the property. For example, if the property was owned for 100 months and was the owner's main residence for 40 of those months, then 40% of the gain would be tax free. The automatic exemption means that, as long as part of the gain benefits from PPR, then the final 18 months of ownership will always qualify for the relief. So in our example, the automatic exemption means that in fact 58 months qualify for PPR, meaning 58% of the gain is tax free.

The proposed change will halve the 18 month automatic exemption so that only the final 9 months will benefit. Property owners wishing to benefit from the longer exemption will need to have their properties sold by the start of the new tax year on 6 April 2020.

The second change targets lettings relief. Lettings relief applies where a seller sells a property that has been used both as a main residence and as a rental property. When the property is sold, the gain applicable to the rental period can be relieved by up to £40,000. Where there are co-owners of property, each co-owner gets his or her own relief and so the total relievable gain on the property as a whole can be quite substantial.

It seems this has now been deemed too generous a tax break. From 6 April next year, lettings relief will no longer apply to periods in which the property has been let out on a tenancy, but instead will be restricted to the much narrower situation where an owner is actually in shared occupancy with a tenant (such as where the owner has a lodger, but the property is not the owner's main residence). Clearly, this drastically restricts the scope of the relief since those renting out whole properties will no longer benefit from it.

These changes are technical and unlikely to make front page news, but owners considering selling property which would have benefited from either the automatic exemption or lettings relief may find it pays to accelerate their plans for a sale over the next few months. Where owners are considering disposing of one or more properties in a portfolio, they may consider choosing to sell those which have at some point been their main residence, in order to take full advantage of the reliefs while they still can.

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