

Changes to Private Residence Relief and Lettings Relief

Principal Private Residence Relief (PPR) and Lettings Relief are both valuable reliefs that can be used to lessen the impact of Capital Gains Tax (CGT) on property disposals.

However, the draft Finance Bill clauses and consultation outcome, published on 11 July 2019, confirmed the government's plans to implement some key changes to the rules from April 2020.



Principal Private Residence Relief (PPR)

Under current rules, provided that a property has at some point been the owner's only or main home, the final 18 months of ownership qualifies for PPR relief, whether or not the owner resides in the property during this time.

This means that, at present, people do not need to pay CGT on the gains made in the final 18 months that they owned the property.

The exemption was originally 36 months when first introduced, during a property market slump, as a concession for those who were unable to sell their former home after moving to another.

From 6 April 2020, however, the 18 month final period exemption will be reduced to nine months.

Lettings Relief

As from 6 April 2020, lettings relief will be restricted to owners who share occupancy with a tenant.

At present, people who let a property that is either currently or used to be their main residence and who sell it can claim Capital Gains Tax relief of up to £40,000, with double that being available to couples who are married or in a civil partnership.

In this respect it is a particularly useful relief, as it applies to each individual and not the property itself.

Lettings relief was introduced in 1980, to allow people to let out spare rooms within their property, on a casual basis, without losing the benefit of PPR.

In practice, however, HMRC has found that the relief is being used for purposes other than those originally intended.

The change to lettings relief means that, where the owner is not living in the property and therefore no longer co-occupies with a tenant/s, no relief will be available beyond the period for which the property qualifies for PPR.

As a result, a typical landlord will likely see a sizeable increase in the chargeable gain on any disposals.

Our comment

Toni Hunter, partner and property tax expert at George Hay, says: "Whilst the logic behind these changes is understood, this does represent another huge attack on taxpayers with investment properties.

With restrictions to relief on finance costs and additional stamp duty charges implemented in recent years, making a good post-tax yield is certainly becoming more of a challenge.

Those who actively invest in property are unlikely to be affected by these newest changes, but those who have a property to supplement their earnings, or who have found themselves to be landlords out of circumstance, will certainly be surprised by the Capital Gains Tax arising when they decide the time is right to sell.

Taking the right advice, whether before or after April 2020, will be essential if you are to be able to plan effectively for your tax liabilities."

A consultation on the proposed changes closed on 1 June 2019, and the final legislation is expected to follow later this year.

Where can I go for guidance?

The changes we've discussed in this article may well affect those of you that are planning on disposing of a home which you no longer occupy, or which has been let at some point during your period of ownership. In these circumstances, you should carefully consider the timing and tax implications of a house sale before or after 6 April 2020.

We understand that effective tax planning is a serious challenge for anybody with an interest in property, which is why we have an in-house property tax team to help and guide clients with property tax issues. To speak to one of the team, call us on 01480 426500.



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