

# CGT & THE FAMILY HOME

APRIL 2024

There is usually no capital gains tax applying to the family home, with relief given via the operation of **Principal Private Residence (PPR) relief**. However, where you have periods of **non-residence** or **land sales**, it is important that you are aware of exactly how PPR operates to avoid any unwelcome tax surprises. The careful use of PPR relief can also be very useful when looking to mitigate CGT in situations with **more than one property** in question.

Note that CGT on disposals of UK residential property (except property covered by PPR relief) must be **reported and paid to HMRC within 60 days** of completion of the sale.

Here we look in more detail at how PPR and other associated reliefs and taxations on the family home operate.

# CAPITAL GAINS TAX - PRINCIPLE PRIVATE RESIDENCE (PPR) RELIEF

For most individuals, their main home is their only home throughout their period of ownership, and any capital gain arising on the sale of the property is exempt from capital gains tax (CGT) by way of PPR relief.

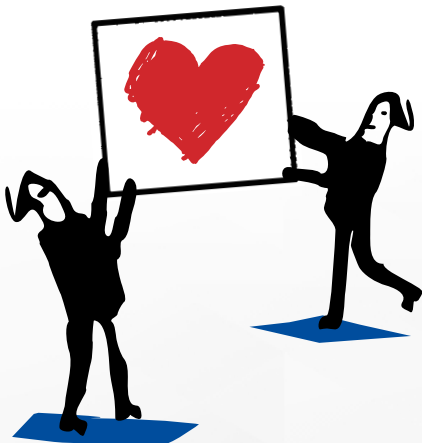
## PERIODS COVERED BY PPR RELIEF

There are **periods that are covered by PPR relief**, other than those where you are living in the property, which can be useful for mitigating CGT - especially where you have more than one property:

- If you do not move into a property immediately because it is being built, altered, or redecorated (or because you remain in your old home whilst you are selling it), the **first 24 months of ownership** are exempt.
- The **last 9 months of ownership** of a property which has at some point been your main residence (36 months if you're disabled or in long term residential care or sold the property before April 2014).
- Provided you live at the property **both immediately before and after** the period of absence, and you **did not live in any other property eligible for relief**, the following periods are also exempt:
  - **Three years** for **any reason** (doesn't need to be consecutive).
  - Up to **four years** where you are required to live elsewhere by reason of your, or your spouse/ civil partner's, **UK employment**.
  - **Any period** where your **employment** requires you to live **abroad**.

If you are required to move to another place of employment and so cannot fulfil the requirement to live in the property after the period of absence for the second two cases, this requirement is dropped.

If you live in rented accommodation during these periods of absence, the rental property would technically be the property qualifying for PPR relief and you would therefore need to make an election for the owned property to continue to receive PPR relief.



# CAPITAL GAINS TAX - PRINCIPLE PRIVATE RESIDENCE (PPR) RELIEF

## LAND COVERED BY PPR RELIEF

The **grounds** covered by PPR relief should not exceed 0.5 hectares (just over an acre). If in excess of this, the grounds should be no more than is required for the reasonable enjoyment of the house as a home, commensurate with its size and character.

## CALCULATION OF PPR EXEMPTION

The **exempt period is calculated as a proportion** of the total period of ownership to give the proportion of the overall gain which is exempt – e.g. if you owned a property for 10 years, but lived there for only 1 year, with a further 1.5 years exempt under the rules above, then 2.5 years out of 10 years, or 25% of the overall gain, would be exempt.

## SECOND PROPERTIES

If you purchase a **second property** (in the UK or abroad), you must nominate, within two years of purchase of this second property, which is to be treated as the main residence.

Please note that you must actually use the property as a home for it to qualify for the exemption – for example you should be able to produce evidence such as utility bills, voter registration, bank statements sent to that address, proof of purchasing furniture etc. for the house.

There is no stated minimum period of time that the property needs to be your home for before it can qualify for PPR, but the shorter the period of time the more questionable it is that the property was in actual fact your home.

You are able to change the nomination at a later date (e.g. to make use of the absence periods allowed as above).

Married couples (and couples in a civil partnership) can only have one main residence between them.



# CAPITAL GAINS TAX - LETTINGS RELIEF

Where you let a property, other than simply to boarders, for a time not covered by the periods specified above, a capital gain may arise on sale.

However, for a property that has, at some point, been your PPR, and is now partially or wholly rented out, additional capital gains tax relief is available.

The amount of relief available is the lower of the PPR relief already calculated on the owner occupied part of the property, or £40,000. This relief cannot reduce the chargeable gain below zero. Where a married couple jointly own the property, each is entitled to this relief, thereby potentially exempting up to £80,000 of capital gain.

This relief does not apply to a let portion of a property which is effectively a separate residence – i.e. which is self-contained and has its own access. **From April 2020, lettings relief is restricted to properties occupied by owners together with their tenants.**



# OVERSEAS PROPERTIES

From April 2015, you are only able to nominate an overseas property as your PPR if you have lived in it for at least 90 days in the tax year.

# NON-UK RESIDENTS WITH UK RESIDENTIAL PROPERTY

If you sell your home after 5 April 2015, and you are not UK resident for tax purposes, you may be liable for Capital Gains Tax. Even if there is no tax to pay, you must inform HMRC of the sale within 60 days of completion, and if any CGT is due it must also be paid within this period.

To qualify for PPR relief on the UK property for each year after April 2015, you must have lived in the UK property for at least 90 days in the tax year and it is nominated as your main or only home. If you qualify for PPR relief for any period, you are also able to qualify for any of the other periods of PPR relief outlined above.

# FIND OUT MORE

If you have any questions about our investment methodology, or would like some financial planning or investment advice, the clarity team are here to help.

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