

CHAPTER 31

PPR RELIEF - FURTHER ASPECTS

31.1 Lettings relief

Having discussed the basic principles of PPR relief in the previous chapter, we will take the topic a stage further by discussing further aspects, starting with lettings relief. Lettings relief can be given in certain circumstances in addition to PPR relief. Lettings relief is available where a dwelling house has been **let as residential accommodation** during a period of absence. Lettings relief is only available during periods when the property is not either actually occupied or deemed to be occupied by the owner. As a result, **PPR relief will always take priority** over lettings relief.

[TCGA 1992, s. 223\(4\)](#)

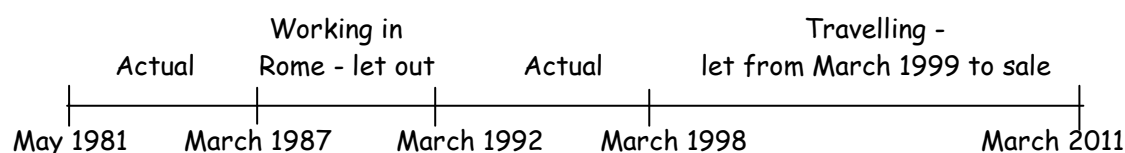
Lettings relief is the **lowest of three numbers**.

1. Lettings relief can never exceed the amount of the **PPR relief**.
2. Lettings relief cannot be more than the **gain arising** during the period of absence in which the property was let out.
3. Finally the maximum amount of lettings relief is **£40,000**.

Lettings relief cannot turn a gain into a loss. It could however reduce a gain to zero.

Illustration 1

A taxpayer purchased a house in May 1981 and sold it in March 2011. The taxpayer lived in the house between the date of purchase and March 1987. In March 1987, the taxpayer was sent overseas by his employer to work in Rome, living in employer provided accommodation, and during this period he let out his house. The taxpayer returned from Rome in March 1992, and moved back into the property. In March 1998, the taxpayer decided to travel the world and did not return to the property. The property was let out from March 1999 until the date of sale.



The property was sold in March 2011, at a capital gain of £195,000. We need to consider the application of PPR relief and lettings relief.

We divide the period of ownership into periods of occupation and absence. Any periods of ownership before 1 April 1982 are ignored. The period from April 1982 until March 1987 (5 years) is actual occupation. Between March 1987 and March 1992, the taxpayer was employed in Rome. To consider whether this is deemed occupation, we look forward and find out whether the taxpayer came back to live in the property.

The taxpayer did return to the property and lived there between March 1992 and March 1998 thereby creating another six years of actual occupation. As the period whilst employed abroad was preceded and followed by actual occupation, the five years between March 1987 and March 1992 can be treated as deemed occupation. The fact that the property was let out during this period is now irrelevant. This period will qualify for full PPR relief, which will take priority over lettings relief.

In March 1998 the taxpayer went travelling. The taxpayer never returned to the property. The final period of deemed occupation will therefore be the last three years of ownership, between March 2008 and March 2011. Therefore the period from March 1998 until March 2008 will not be covered by any of the deemed occupation rules, and will be treated as 10 years of absence.

	<i>Occupation</i>	<i>Absence</i>	<i>Total</i>
Before 1 April 1982	Ignored		
April 1982 - March 1987 (actual)	5		
March 1987 - March 1992 (employed abroad)	5		
March 1992 - March 1998 (actual)	6		
March 1998 - March 2008 (9 years let from March 1999)		10	
March 2008 - March 2011 (last 3 years)	3		
Total	<u>19</u>	<u>10</u>	<u>29</u>

Therefore looking at the period of ownership from April 1982 until March 2011, we have 19 years of occupation and 10 years of absence. This will enable us to determine the PPR relief. In addition, we must consider lettings relief as during the 9 years between March 1999 and March 2008 the property was let out as residential accommodation. Lettings relief will be available, as the property was let out during a period of absence.

The PPR relief will be:

$$£195,000 \times \frac{\text{occupation}}{\text{ownership}} \left[\frac{19}{29} \right] = \underline{\underline{£127,759}}$$

Lettings relief is the lowest of three figures:

- (i) PPR relief being £127,759.

- (ii) The gain in the let period. The property was let between March 1999 and March 2008. The gain arising in this 9 year period is 9/29ths of £195,000 being £60,517.
- (iii) The maximum lettings relief of **£40,000**.

The lowest of these three numbers is £40,000, so this is the lettings relief. We deduct this lettings relief to give us a gain of £27,241.

	£	£
Gain		195,000
Less: PPR relief		
$£195,000 \times \frac{19}{29}$		<u>(127,759)</u>
		67,241
Less: Lettings relief		
Lower of		
(i) PPR relief	127,759	
(ii) Gain in let period		
$195,000 \times \frac{9}{29}$	60,517	
(iii) Maximum	40,000	<u>(40,000)</u>
Gain		<u>£27,241</u>

31.2 Unable to re-occupy property

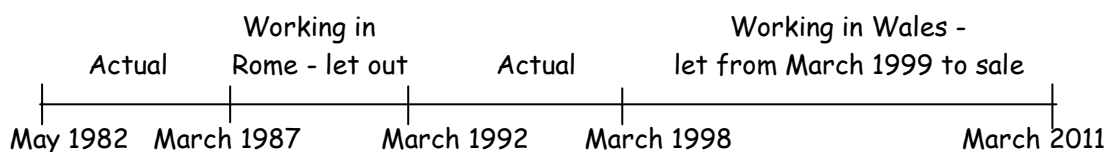
We saw in the previous chapter that where an owner is absent from a property due to employment overseas (for any period) or due to working elsewhere (for up to four years), the period of absence will be treated as deemed occupation provided it is both preceded and followed by actual occupation.

[TCGA 1992, s. 223\(3b\)](#)

However, if an individual is **unable to reoccupy the property** as the terms of his employment require him to work elsewhere, the period of absence can still be treated as a period of deemed occupation.

Illustration 2

Let us reconsider the situation of the taxpayer in Illustration 1. Assume the same facts except that in March 1998 he was required by his employer to work in Wales, living in employer provided accommodation.



The taxpayer continues to be required to work in Wales and sells the property in March 2011, at a gain of £195,000.

As the taxpayer cannot reoccupy the property as a result of the terms of his employment, 4 years of the period March 1998 to March 2008 can be treated as deemed occupation. The gain relating to the remaining 6 years of absence will be eligible for lettings relief.

	<i>Occupation</i>	<i>Absence</i>	<i>Total</i>
Before 1 April 1982	Ignored		
April 1982 - March 1987 (actual)	5		
March 1987 - March 1992 (working abroad)	5		
March 1992 - March 1998 (actual)	6		
March 1998 - March 2008 (6 years let)	4	6	
March 2008 - March 2011 (last 3 years)	3		
Total	<u>23</u>	<u>6</u>	<u>29</u>

The gain will be calculated as follows:

	£	£
Gain		195,000
Less: PPR relief		
$£195,000 \times \frac{23}{29}$		(154,655)
		40,345
Less: Lettings relief		
Lower of		
(i) PPR relief	154,655	
(ii) Gain in let period (6/28 x 195k)	40,345	
(iii) Maximum	40,000	(40,000)
Gain		<u>£345</u>

31.3 Interaction with the "Rent a Room" scheme

Where a home owner lets out part of his main residence to a lodger - i.e. the owner and the lodger share the house then for income tax purposes rental income is only taxable to the extent that it exceeds the Rent a Room threshold of £4,250.

[ITTOIA 2005, s.789](#)

In this instance, when the owner comes to sell his house, **full PPR relief** will be available. There is no need for the taxpayer to apportion his ownership period into periods of occupation and periods of absence. In effect, for PPR relief purposes, he is treated as having lived in the whole of the property despite the fact that part of it was being let out to a lodger. There is therefore no need to consider lettings relief if Rent a Room relief applies and no need to restrict the PPR relief available.

31.4 Business use

PPR relief may be **restricted** if part of one's main residence is **used for business purposes**. If part of a taxpayer's home is used **exclusively** for business purposes, it is necessary to **apportion** gains into business and private components before considering PPR relief. In this instance, PPR relief is only given on the private element - only on the gains arising on the part of the property used as living accommodation.

[TCGA 1992, s. 224\(1\)](#)

Gains are apportioned on an "appropriate" basis, and in practice a split of the gain based on the floor area of the business and private components of the property is usually acceptable to HMRC.

It is very important to note that an apportionment only needs to be made if part of a dwelling house is used **exclusively** for business purposes. No apportionment is required if no part of the house is set aside exclusively for business use. For example, if a spare bedroom is occasionally used as an office and occasionally used as a bedroom, as there is no exclusive business use, there is no need to apportion the gains and there will be no restriction of PPR relief.

Any gains arising in the **last 36 months** of ownership will still be **fully exempt**, as long as **all of the house has been used for living accommodation at some point** during the period of ownership.

Illustration 3

A house was purchased in July 1992 and sold 18 years later in July 2010. In July 1994, the house was converted such that the top floor became used exclusively as a workshop for business purposes. The top floor comprised one-quarter of the total floor area of the house. The entire property was sold in July 2010 at a capital gain of £180,000.

Between July 1992 and July 1994, all of the property was used as living accommodation. The whole of this two year period will therefore qualify for full PPR relief. As the whole of the property has been used as living accommodation at some stage during the period of ownership, full PPR relief can be claimed in the last 36 months. Therefore 100% of the capital gain is exempt for 5 out of the 18 years of ownership.

	<i>Full Occupation</i>	<i>Part Occupation</i>	
July 1992 - July 1994	2		
July 1994 - July 2007		13	Business (25%) PPR (75%)
July 2007 - July 2010	<u>3</u>		
Total	<u>5</u>	<u>13</u>	

This leaves a 13 year period between July 1994 and July 2007 where the property was partly used for business purposes and partly used as living accommodation. PPR relief can therefore be claimed on 75% of the gain arising in this 13 year period.

	£	£
Gain		180,000
Less: PPR relief		
$£180,000 \times \frac{5}{18} \times 100\%$	50,000	
$£180,000 \times \frac{13}{18} \times 75\%$	<u>97,500</u>	
		<u>(147,500)</u>
Chargeable gain		<u>£32,500</u>

As the **whole** of the property has been used as living accommodation **at some point** during the period of ownership, the whole of the gain in the final three years will be exempt from tax. If part of the property had been used exclusively for business purposes throughout the entire period of ownership, part of the gain arising in the final three years would be chargeable to tax.

31.5 More than one residence

Finally we will consider how we deal with the situation where an individual has more than one private residence. If no action is taken, **HMRC will determine** which of the two properties is to be treated as the principal private residence for CGT purposes as a matter of fact. Usually the property which is most commonly used as a main residence, will be regarded as the PPR.

[TCGA 1992,
s.222\(5\)](#)

However the **taxpayer can instead** make an **election to nominate** one of the residences as his PPR for CGT purposes. This need not necessarily be the residence in which the taxpayer spends the majority of his time, although it is necessary for the individual to **actually reside in both** residences from time to time.

Typically the taxpayer will elect for whichever of the properties is standing at the largest capital gain to be his principal private residence.

As a general rule, a taxpayer **can only have one** principal private residence at any given time. The PPR rules do not normally allow exempt periods to overlap. However the **last 36 months** of ownership of a property is **always treated as exempt**, as long as the taxpayer has actually occupied the property as his private residence at some time beforehand. Therefore if a taxpayer purchases a second residence, and makes an election for the second residence to be treated as his PPR, as long as he sells the first residence within three years, he will have two exempt residences for that period.

The other periods of absence which we looked at earlier will not be considered periods of deemed occupation if the taxpayer has another property which qualifies as his private residence at the same time.

If a taxpayer wishes to nominate which of his residences is his PPR, he must make an **election to that effect within two years** of acquiring the second property.

31.6 Husband and wife

Where a **husband and wife** are living together, they may **only have one** qualifying PPR between them. It is not possible for a husband and wife to each own a property, and for each of them to elect for the different properties to be their own respective PPRs. These rules also apply to civil partners.

[TCGA 1992,
s.222\(6\)](#)

Separation

Separation will usually result in one of the spouses leaving the matrimonial home. This will mean that the **property is no longer the PPR** of the person who moves out.

If the house is subsequently sold within 3 years of the spouse vacating the property, **PPR relief will continue to be available** to cover the period between moving out and the date of disposal as the **"last 36 months" rule will apply**.

However if more than 3 years elapse between one spouse moving out and the subsequent disposal of the property, a period of absence will be created and a capital gain could arise.

A measure of relief is available where

[TCGA 1992,
s.225B](#)

- a couple separate;
- one partner ceases to occupy the property; and
- his/her share of the property is subsequently transferred to the former spouse as part of a financial settlement.

In this case, the property can **continue to be treated as the PPR of the transferring partner** provided that the property has **continued to be the only or main residence of the former partner** throughout the period since separation.

Therefore where a husband leaves the matrimonial home while still owning it (or owning a part of it), PPR relief will be available on a subsequent transfer of the property to the wife. The only proviso here is that the husband in this case has **not elected for another property to be his PPR** in this period.

A summary of the various capital gains tax reliefs covered over the previous chapters is included at the end of this chapter as well as the summary on further aspects of PPR relief.

Example 1

Keith sold his home in March 2011 making a gain of £510,000.

He had bought it in March 1994 and lived in it until March 1999.

Between March 1999 and the date of sale it was let to a residential tenant.

Calculate Keith's chargeable gain.

Example 2

Chris sold his house in Brighton in February 2011 making a gain of £140,000. He had bought it in February 1997 and had always lived there.

In February 2006, Chris had acquired a flat in London to use on an occasional basis. He elected for this to be his main residence immediately.

Calculate Chris's chargeable gain on the Brighton house.

Answer 1

	<i>Occupation</i>	<i>Absence</i>	
Mar 1994 - Mar 1999 (actual)	5		
Mar 1999 - Mar 2008 (let)		9	
Mar 2008 - Mar 2011 (last 3 years)	<u>3</u>	<u>—</u>	<u>—</u>
Total	<u>8</u>	<u>9</u>	<u>17</u>
			£
Gain			510,000
Less: PPR relief			
$£510,000 \times \frac{8}{17}$			<u>(240,000)</u>
Gain after PPR relief			270,000
Less: Lettings relief			
Lower of			
(i) PPR relief		240,000	
(ii) Gain in let period			
$510,000 \times \frac{9}{17}$		270,000	
(iii) Maximum		40,000	
			<u>(40,000)</u>
Gain			<u>£230,000</u>

Answer 2

	<i>Occupation</i>	<i>Absence</i>	
February 1997 - February 2006 (actual)	9		
February 2006 - February 2008 (another PPR)		2	
February 2008 - February 2011 (last 3 years)	3		
Total	<u>12</u>	<u>2</u>	<u>14</u>
			£
Gain			140,000
Less: PPR relief			
$140,000 \times \frac{12}{14}$			<u>(120,000)</u>
Gain			<u>20,000</u>