

Private lettings relief

Lettings relief potentially shelters some of the gain from capital gains tax on the disposal of a property which has been an only or main residence at some point during the period of ownership and which has also been let out.

Where a residence has been occupied as an only or main home, private residence relief exempts from capital gains tax not only the period for which the property was so occupied, but also the last 18 months of ownership. Where the property is let, to the extent that the letting falls outside the last 18 months of ownership, private residence relief is not available for that period. However, lettings relief may be.

Availability of lettings relief

Lettings relief is available where a gain arises on the disposal of a property which:

- at some time has been the individual's only or main residence;
- during the period of ownership, all or part of the property has been let as residential accommodation; and
- a chargeable gain arises as a result of the letting.

Amount of the relief

The amount of the relief is the lowest of the following three amounts:

1. the amount of private residence relief;
2. £40,000; and
3. the amount of the chargeable gain arising as a result of the letting.

Example

Rose buys a cottage on 1 January 2012 for £200,000 and lives in it as her only or main residence until 30 June 2015. She then moves in with her boyfriend and lets the cottage out. The cottage is sold for £350,000 on 30 June 2018.

The gain on the sale of the property is £150,000.

The property is owned for 6 years and 6 months (78 months).

She lived in it as her main residence for 3 years and 6 months (42 months).

Private residence relief is available for the period in which she occupied the property as her main residence and the final 18 months – a total of 60 months (42 months + 18 months).

The gain eligible for private residence relief is $60/78 \times £150,000 = £115,385$.

The gain attributable to the let period is the remainder of the gain, i.e. £34,615 (£150,000 - £115,385).

Lettings relief is the lower of:

1. £115,385 (gain eligible for private residence relief);
2. £40,000; and
3. £34,615 (gain attributable to the letting).

As a result of the lettings relief, the full gain is exempt from tax; £115,385 being sheltered by private residence relief and the remaining £34,615 being sheltered by lettings relief.

Living in a let property as a main residence for a period of time can be very beneficial. Not only does it shelter any gain for the period for which it was occupied as such, it also shelters the gain for the last 18 months and brings lettings relief to the table.

Partner note: TCGA 1992, s. 223.