

Private residence relief and the final period exemption

Private residence relief (also called main residence relief) is well known. It prevents a liability from capital gains tax arising on any gain on the disposal of a property which has been the taxpayer's only or main residence throughout the period of ownership.

Where a property has not been the only or main residence throughout, the amount of private residence relief is reduced. It is available both for the period during which the property was the taxpayer's only or main residence and, currently, the final 18 months of ownership (the 'final period exemption'). Where the property has been let, the chargeable gain may be further reduced by lettings relief (but note this is to be curtailed).

The final period exemption is a useful exemption. It shelters the gain in the final period of ownership as long as the property has at some point during the period of ownership been the taxpayer's only or main residence. It prevents a gain from arising if, for example, the taxpayer moves into a new home before the sale of the former home has completed. It also reduces the chargeable gain in respect of a let property that at some time has been the only or main residence. It is also a useful planning tool where a taxpayer has more than one residence.

The final period exemption

The final period exemption currently applies to the last 18 months of ownership. This is increased to 36 months where the taxpayer moves into care or is disabled.

However, at the time of the 2018 Budget it was announced that the final period exemption would be halved from 6 April 2020. Where residence is disposed of on or after that date, only the last nine months of ownership qualifies for the final period exemption. However, it is to remain at 36 months when the taxpayer moves into care or is disabled. The government are to consult on the change.

Planning ahead

As the change does not come into effect until 6 April 2020, there is time to plan ahead. If a disposal is on the cards and the property has been the only or main residence at some point, but not throughout, the period of ownership, disposing of the property before that date shelters the last 18 months of ownership. Assuming that the legislation follows the same format as for the reduction in the final period exemption from 36 months to 18 months with effect from 6 April 2014, the critical date will be the date on which contracts are exchanged, which must be before 6 April 2020.

Example

Jack purchased a house on 1 November 2014. Until 31 October 2018 he lived in it as his main residence. On 1 November 2018 he completed on the purchase of a flat, which he lived in during the week. As he was planning to sell the house, he elected for the flat to be his only or main residence from 1 November 2018.

If contracts on the sale of the house are exchanged before 6 April 2020, the last 18 months will be exempt, so the whole gain will qualify for PRR. However, if exchange occurs after 6 April 2020, only the final nine months will qualify for relief bringing some of the gain into charge.