

Lettings relief

Lettings relief increases the amount of the gain that is sheltered from capital gains tax when you sell a property which has at some time been your only or main residence, and in respect of which some private residence relief is due.

Private residence relief (PPR) is available on the disposal of a property that has been used as the owner's only or main residence at some point during the period of ownership. If the property has been the only or main residence throughout the whole period of ownership, there is no capital gains tax to pay – the full amount of the gain is eligible for the relief. However, if the property has been used for business or let out for some of the period of ownership, part of the gain will be taxable. However, if some PRR is due, the gain relating to the last 18 months of ownership is exempt.

Nature of lettings relief

Lettings relief provides an element of additional relief where part of the gain on the disposal of a residential property is taxable because the property has been let out during the period of ownership. The relief is only available if the property has at some point been the only or main residence and private residence relief is available in respect of part of the gain.

The amount of lettings relief is the lowest of:

- the amount of private residence relief;
- £40,000; and
- the amount of the gain that is chargeable by reason of the letting.

Example

David bought a flat on 1 September 2006 for £200,000. He lives in it as his main home for three years. He then moved in with his girlfriend, letting out the flat for seven years until he sold it on 31 August 2016 for £305,000. Costs of acquisition and sale were £5,000.

Before taking account of any available reliefs, David realises a gain of £100,000 (£305,000 – (£200,000 + £5,000)).

The property was David's only or main residence for 3 years and qualifies for private residence relief for this period. Further, the last 18 months of ownership are also exempt, bringing the total period qualifying for private residence relief to four and half years.

The gain eligible for PPR is therefore £45,000 (£100,000 x 4.5/10).

The remaining gain of £55,000 is attributable to the letting and does not qualify for private residence relief.

However, lettings relief is available. The amount of the relief is the lowest of:

- the gain qualifying for private residence relief, i.e. £45,000;
- £40,000; and
- the gain attributable to the letting, i.e. £55,000.

Letting relief is therefore £40,000.

The computation of the gain is as follows:

	£	£
Sale proceeds		305,000
Less: cost of property	£200,000	
costs of acquisition and sale	£5,000	
		(£205,000)
		£100,000
Less: private residence relief (3 years plus last 18 months)		(£45,000)
Gain attributable to letting		£55,000
Less: lettings relief		(£40,000)
Chargeable gain		£15,000

Although the property was let for seven years, the availability of lettings relief reduces the chargeable gain to £15,000.

Double the relief

Although married couples and civil partners can only have one main residence between them for PPR purposes, each individual is entitled to lettings relief in respect of their share of the gain – doubling the potential letting relief available for spouses or civil partners to £80,000.