

Principal Private Residence Relief (PPR)

The following notes are meant to be used as a reference guide for PPR. Specific tax advice should be sought in relation to your own personal circumstances before implementing any of the guidance shown below.

Under the current capital gains tax regime, a taxpayer's principal private residence, or main home, is an exempt asset. If a main residence is sold, no capital gains tax charge arises.

However, many taxpayers have second and third homes which would not be exempt from capital gains tax if they were sold.

Where a taxpayer owns more than one property, it is possible to obtain tax relief for the last 3 years of ownership, if planning is undertaken.

Operation of the Relief

In order to qualify as a taxpayer's PPR, the following generally applies:

- Husbands and wives, and civil partners are entitled to one PPR between them;
- Relief is restricted where part of the PPR has been used for business purposes;
- The last 36 months of ownership is generally exempt in all cases where the property was at some point during the ownership period, the taxpayer's main home;
- The period of occupation is deemed to include periods of absence where:
 - (i) The taxpayer is absent for any reason, up to 3 years;
 - (ii) The taxpayer is absent for any period whilst working abroad;
 - (iii) The taxpayer is absent for 4 years due to UK employment or self employment, or self employment abroad.
- The exemption covers a garden and grounds up to half a hectare.

Making an Election

Without an election in force, where a taxpayer has more than one residence, HMRC can determine whether a property can be classified as a taxpayer's PPR based on the facts.

It is advantageous to notify HMRC as to which property should be classified as a main residence to:

- Retain control over assets; and
- Ensure that relief is obtained for the last 3 years of ownership of a property.

Where an election is made, written notice must be provided to HMRC to elect for a property to be classified as a taxpayer's main home:

- Within 2 years of the second property being used as a main residence;
- Within 2 years of an additional property being purchased (either abroad or in the UK).

The election can be varied at a later date, where additional properties are purchased.

Letting Relief

Gains on additional properties may also be exempt where they relate to a period when the property was rented out. However, this is restricted to the lower of:

- The gain made during the period;
- The gain which is already exempt under the PPR rules;
- £40,000