



## **“FLIPPING MARVELLOUS” - PRINCIPAL PRIVATE RESIDENCE RELIEF (PPR) - CGT**

The taxman seldom gives us many breaks so it is refreshing to see one key exemption still flourishing. Under current UK legislation, the gain on the sale of the property which is your designated principal private residence (PPR), qualifies for relief from CGT.

For most people, this is simply their single main home. But suppose you purchase a second property; say in a situation where a couple maintain a family home in the country, and a flat in town near the office, just like your MP.

You then have a two year “window”; from the date you buy the second home, to decide (“elect” in tax jargon) which property is to be treated as your PPR for CGT purposes.

This election opens up the possibility of using “house-flipping” as a tactic to avoid CGT and is not fortunately exclusive to MPs. Anyone who can afford to buy a second home, and who abides by the rules, should be capable of benefiting.

### **The basic relief**

Your home is normally exempt from capital gains tax when you sell it if you have occupied it as your main residence throughout your period of ownership. Even if you don’t live there all of the time there are some temporary periods of absence which count as occupation anyway. For example, the last 36 months of ownership are always treated as occupation even if you are somewhere else entirely.

There are limits, however. If the grounds exceed half a hectare (5,000 square metres) then part of the capital gain may not be covered by the exemption. The question is whether the extra land is “required for the reasonable enjoyment of the residence”. After all, a bigger house needs a bigger garden so a little flexibility is needed in relation to the half-hectare limit and this has to be negotiated on a case by case basis with HMRC.

### **Letting relief**

You only get partial relief if you have let your home but you may be entitled to letting relief to enhance the PPR relief. The capital gain is reduced by the lower of:

- £40k (£80k for two joint owner/occupiers e.g. a married couple)
- The amount already exempted by PPR as a result of the owner’s occupation
- The amount of the gain attributable to the period of letting

### **More than one residence**

Under the current tax rules, providing you have made a PPR election within two years of acquiring a second home, you can then vary that election at any time, in favour of any other property. This is the way of opening up opportunities for the “flipping” that some MPs carry out, and it is a legitimate tax planning tool that could prove highly advantageous. If you don’t elect, the Inspector will make his own mind up as to which is your PPR – quite possibly not in your favour!

## Planning points

When acquiring an additional residence always elect for one to be your main residence – this will keep your options open for a later variation. It can be beneficial to live in a new property you plan to let for a period to obtain the final three year exemption and letting relief. If you retain another residence at the same time you will need to elect for the new property to be your main residence if only for a very short period. You need lose only a tiny amount of PPR relief on the first property to gain a big advantage on the second. (HMRC kindly even flag up the availability of this relief in their own instruction manuals!).

The CGT rules say that where a house has “at any time” ever been your PPR, then the gain relating to the previous 36 months of ownership will be free of tax when selling that home.

Hence, you could nominate one property as your PPR, for instance your real main home. You can then change the election of PPR to your second home, even for a little as one week, and sell that second home.

The profit relating to the last three years of ownership of the property would fall out of the CGT net when it was sold.

## Anti-avoidance

You may need to prove that this was more than just a temporary arrangement purely for the tax advantage. Bear in mind that the taxman will not always let you get away with simply signing a tax election. He will be looking for a genuine intention to use the property as a residence. Even if all the usual conditions are met, he will not allow the exemption if he thinks you have acquired a house just to turn a profit on it. He will have a good look at situations where you have bought a house to do up and sell on quickly at a profit, or if you convert your house into flats. He will almost certainly pay even closer attention if you are involved in the building industry.

Married couples can only have one PPR between them at any time. However, unmarried couples can have one each if they arrange their affairs efficiently.

The annual CGT exemption is **£10,100** per person in the current tax year (2009/10), and if the property is held in joint names, double the amount of relief would be available.

The possibility of using “home-flipping” as a tactic to avoid CGT is not, as we have seen, exclusive to MPs. Anyone who can afford to buy a second home, and who knows about the two year period in which to make the HMRC election, can also do it.

## What do you need to do?

Please always notify us when you purchase residential property to enable us to assist you to maximise your entitlement to capital gains tax relief. If you require further assistance please contact Stephen Fox on 01225 428114 (email: [s.fox@robson-taylor.co.uk](mailto:s.fox@robson-taylor.co.uk)) or speak to your usual Robson Taylor contact.

*This summary has been prepared for general guidance only and should not be acted upon without specific advice. Please contact us if you require further information. Last updated July 2009.*