AUTUMN BUDGET 2018 UPDATE

RESTRICTION OF CGT PRIVATE RESIDENCE RELIEF AND PRIVATE LETTINGS RELIEF – IMPACT AND PLANNING

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The Autumn 2018 Budget announced the restriction of Private Residence Relief (PRR) and Private Lettings Relief (PLR), from April 2020. The tax reliefs act to reduce the CGT due on the sale of a property that a landlord has lived in – however, the government now thinks these tax reliefs are too generous, and will impose restrictions which could mean thousands of pounds of extra tax payable.

Remind me again – what is Private Residence Relief (PRR) and Private Lettings Relief (PLR)?

PRR is the tax relief that prevents capital gains made on a main residence from being taxable.

However, many properties are lived in as a main residence by the owner, and then rented either before or after the owner lived there. In these cases, some of a capital gain on sale is exempt from tax, and some isn't.

The calculation of the amount of a capital gain that is taxable where the owner hasn't always lived in the property works on a 'fraction' basis, ie by calculating the fraction of the total ownership period that is covered by PRR, in round months. As well as the actual months of occupation in a property, the current PRR rules allow the final 18 months of ownership to also be treated as if the owner lived in the property, so benefiting from PRR.

As well as PRR, a property that qualifies for PRR will also qualify for Private Lettings Relief (PLR), which is worth up to the amount of PRR, to a maximum of £40,000, and like PRR, is a per-person tax relief.

OK, so what's changing?

From April 2020, the PRR 'final period exemption' of 18 months will be halved to nine months. And from April 2020, PLR will be abolished, except for the scenario where the landlord lives on a shared-occupancy basis with a tenant (in practice, this will be extremely rare).

The government's view is that owners could potentially benefit from having a long (which they consider 18 months to be) final exemption period, as tax relief could be claimed for two properties (an unsold one and a new one) simultaneously.

And, PLR was a specific tax relief brought in to encourage property owners to let their old home – clearly, in an era where the government has introduced tax changes to control the private rental sector (mortgage interest restrictions, increased SDLT on purchase, abolishing the wear and tear allowance), it makes little sense to retain a tax relief that was designed to encourage property rental.

It is worth noting, however, that these changes will not affect landlords who have not lived in a property they are renting, and that the special exemptions for people living in or moving into a care home, or who are disabled, will not change (these cases are allowed a 'final period exemption' of 36 months).

OK, I think I follow it – but let's see some numbers!

The following table sets out how the current PRR and PLR CGT tax reliefs operate in a simple example:

- **Single owner who is a Higher Rate taxpayer**
- **£100k property purchase price**
- **£250k sale price**
- **£50k of purchase / sale / capital costs.**

Property owned for ten years, lived in for four years, and rented for six years until sale:

	With no PRR or PLR	With CURRENT PRR & PLR	With REDUCED PRR & PLR
Capital gain after costs	£100,000	£100,000	£100,000
Less: Private Residence Relief (PRR)		-£55,000	-£47,500
Less : Private Lettings Relief (PLR)		-£40,000	
Total Relief (PRR + PLR)	£0	-£95,000	-£47,500
Net gain / loss after PRR & PLR	£100,000	£5,000	£52,500
Private Residence Relief			
Total ownership period (months)		120	120
Period of residence		48	48
PRR - Final Exemption		18	9
Total relief (months)		66	57
PRR %	0.0%	55.0%	47.5%
PRR relief	0	£55,000	£47,500