

CHAPTER 17 – PRINCIPAL PRIVATE RESIDENCE RELIEF

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CHAPTER 17

PRINCIPAL PRIVATE RESIDENCE RELIEF

In this chapter you will learn about the relief available when a taxpayer sells his only or main residence including:

- what the term “principal private residence” means;
- calculating PPR relief;
- the deemed occupation rules;
- ESC D49.

17.1 Introduction

In this section, we shall look at the relief an individual receives when he makes a capital gain on the sale of his **only or main residence**. This relief is known as “principal private residence relief”, shortened to “PPR relief”.

PPR relief exempts all or part of a gain which arises on a property which an individual has used as his home. We start by calculating the capital gain on the sale of the property in the normal way. From this we will deduct principal private residence relief to arrive at the chargeable gain. [TCGA 1992, s.223\(1\)](#)

Gain on Property	X
Less: PPR relief	(X)
Chargeable gain	X

In the majority of instances, we are dealing with a private residence – i.e. not an asset used in a business.

PPR relief is an exemption relief and reduces the capital gain rather than deferring it to a later period in time. To calculate the amount of the gain which is exempt, we multiply the gain by the following fraction: [TCGA 1992, s.223\(2\)](#)

Gain × Period of occupation of property/Period of ownership

As you will see, if the taxpayer has lived in the property as his home throughout the whole period of ownership, 100% of the gain is exempt and no gain is chargeable.

For most taxpayers therefore, a capital gain made on the sale of their home will be completely exempt as it will be wholly covered by PPR relief. A **gain will only arise** if the taxpayer has been **absent** from the property **at some point** during his period of ownership. We will look at how we calculate capital gains in this instance later in the session.

17.2 Principal Private Residence

Before we look at the detailed computation, we will consider what HMRC mean by the term “Principal Private Residence”. Gains on the disposal of a **“dwelling house”** will qualify for PPR relief. A “dwelling house” means not only the main building, but includes any relevant buildings adjoining it. Relevant buildings here would include garages, outhouses, and separate buildings occupied either by members of the family or by staff or employees. [TCGA 1992, s.222](#)

A taxpayer's principal private residence also includes **gardens and grounds**, provided the entire area including the site of the house, does not exceed **half a hectare**. HMRC will permit a larger area to qualify for PPR relief if they are satisfied that the whole area of land is required for the “**reasonable enjoyment**” of the property. [TCGA 1992, s.222\(2\)](#); [TCGA 1992, s.222\(3\)](#)

17.3 Calculation of the Relief

The PPR relief is the gain multiplied by periods of occupation divided by the total period of ownership. In this context, “occupation” means both **actual** occupation and **deemed** occupation. By deemed occupation we mean periods during which the taxpayer is **physically absent** from the property, but for PPR purposes he is **treated as living there**. We shall look at the various periods of deemed occupation in more detail shortly.

In any event, the **last 18 months** of ownership (36 months for disposals before 6.4.2014) of ownership are **always** treated as a period of **deemed occupation**, regardless of whether the taxpayer is living there or not. The only condition here is that the taxpayer must have **occupied the property as his home at some stage**. [TCGA 1992, s.223\(2\)\(a\)](#)

17.4 Deemed Occupation

Certain periods of absence can be treated as occupation, and these periods are listed at Section 223 TCGA 1992. Before looking at periods of deemed occupation, it is very important to note that a period of absence can only be treated as a period of deemed occupation if it was both **preceded and followed by a period of actual, physical occupation**. [TCGA 1992, s.223\(3\)](#)

Therefore if a taxpayer purchases a property, lives in it for a while then moves out, we can only count the period of absence as a period of occupation if the taxpayer returns to the property and lives in the house before he sells it.

HMRC have not given any guidance about how long a taxpayer must live in a property for that to constitute actual occupation. Instead they will look at the individual facts and circumstances of each case. It may be possible for a taxpayer to return to his house for just a few weeks, but the important thing is that the taxpayer must satisfy HMRC that for that short period the property was his home. As far as HMRC are concerned, they will look at the **quality** of the occupation rather than the physical time period.

In addition the individual **cannot have another exempt residence** during any of these periods of deemed occupation.

The legislation is very specific as to which periods of absence can count as deemed occupation. There are **three** periods of absence that will qualify.

1. Where the owner is **abroad by reason of his employment**, that period of absence can be treated as a period of deemed occupation. This period is **unlimited**. [TCGA 1992, s.223\(3\)\(b\)](#)
2. Where the owner was absent from the property due to **working elsewhere** – either as an employee or as a self-employed trader – that period of absence will also qualify as deemed occupation. Here the period of deemed occupation is limited to a **maximum of four years**. [TCGA 1992, s.223\(3\)\(c\)](#)

3. Finally, **any period** of absence up to a **maximum of three years** will qualify as a period of deemed occupation. [TCGA 1992, s.223\(3\)\(a\)](#)

These three periods of deemed occupation can apply cumulatively. This means that a longer period of absence may all qualify as deemed occupation, as certain periods can be added together.

A period of absence is treated as a period of deemed occupation if the individual is **living with a spouse/civil partner who meets one of the necessary conditions** relating to work or employment.

It is extremely important to remember that a period of absence will only qualify as deemed occupation if it was **both preceded and followed by actual occupation**. This means that the taxpayer must return to the property and live in the house as his home, in order for the intervening periods to qualify.

➤ Illustration 1

A taxpayer bought a house in July 1991 and sold it 23 years later in July 2014. From July 1991 to July 1992, the taxpayer occupied the property as his main residence. In July 1992 the taxpayer was relocated by his employer to work in Leeds, and his secondment finished in July 1997. At that point he returned to the property and lived there until July 2000.

In July 2000 the taxpayer was sent by his employer to work in Paris. He returned from Paris in July 2011 and resumed occupation of the property until the date of sale in July 2014. Whilst on secondment he lived in employer provided accommodation.



On the sale of the property in July 2014, the taxpayer made a gain of £600,000. Our requirement is to calculate the amount of the principal private residence relief to deduct from this gain to give the chargeable gain.

Calculate the chargeable gain, after PPR relief.

To calculate the PPR relief, we must identify the taxpayer's periods of occupation and periods of absence. From July 1991 until July 1992, the taxpayer lived in the property, so this is one year of actual occupation.

Between July 1992 and July 1997, the taxpayer was unable to occupy the house due to working elsewhere. To determine whether this qualifies as a period of deemed occupation, we must look forward and find out if the taxpayer resumes occupation of the property at some point after July 1997. Between July 1997 and July 2000, the taxpayer lived in the property as his main residence. We therefore can consider the deemed occupation rules.

Periods of absence whilst the taxpayer is working elsewhere qualify as deemed occupation up to the maximum of four years. In addition, any period of absence up to three years will also qualify as deemed occupation. Because these periods can apply cumulatively, we can add them together. This means that the whole of the five year period between July 1992 and July 1997 will qualify as a period of deemed occupation.

Between July 2000 and July 2011, the taxpayer was in Paris by reason of his employment. Again in order to find out whether this period qualifies, we look forward and see if the taxpayer comes back and reoccupies the property.

The taxpayer returned to the property and lived there between July 2011 and July 2014. He therefore has three years of actual occupation.

Again we can consider the deemed occupation rules. Any period of absence during which the owner was abroad by reason of his employment will qualify as deemed occupation. Here therefore, the whole eleven year period will be treated as a period of occupation.

	Occupation	Absence
July 1991 – July 1992 (actual)	1	
July 1992 – July 1997 (4 years working in UK + 1 year for any reason)	5	
July 1997 – July 2000 (actual)	3	
July 2000 – July 2011 (working abroad)	11	
July 2011 – July 2014 (actual)	3	
Total	<u>23</u>	<u>0</u>

The whole period of ownership – i.e. 23 years – is therefore treated as occupation, and the taxpayer has no periods of absence. This is despite the fact that out of the 23 years of ownership, he has only physically lived in the property for seven years. The gain of £600,000 will therefore qualify for £600,000 worth of PPR relief. This reduces the gain to zero, effectively making the gain completely exempt.

Gain	£ 600,000
Less: PPR relief 600,000 × 23/23	(600,000)
Chargeable gain	<u>Nil</u>

➤ Illustration 2

A taxpayer purchased a property in April 1982 and sold it on 1 October 2014. Between April 1982 and April 1990, the taxpayer occupied the property as his main residence. He moved out in April 1990 to live in his girlfriend's house.

He returned to the property in April 1992 and resumed residence. In April 1995, he was sent by his employer to work abroad and lived in employer provided accommodation. The taxpayer returned to the UK in October 2009, but never reoccupied the property. He sold the property in October 2014 making a gain of £600,000.

Calculate the chargeable gain, after PPR relief.

We will split the taxpayer's ownership period between periods of occupation and periods of absence.

Between April 1982 and April 1990, the taxpayer had eight years of actual occupation. Between April 1990 and April 1992, the taxpayer was living with his

girlfriend. To determine whether this will qualify as deemed occupation, we look forward and see if the taxpayer returned to the property. The taxpayer came back and lived in the property between April 1992 and April 1995. Here he will have another three years of actual occupation.

We can consider the deemed occupation rules for the period in between. Here the two year period will qualify as deemed occupation, because it is a period of less than three years for any reason whatsoever.

The taxpayer left the UK to take up employment abroad in April 1995. The taxpayer never returned to the property before he sold it in October 2014. This means that he will not be able to claim that the period during which he was employed abroad was a period of deemed occupation.

However, the last 18 months of ownership are always treated as deemed occupation, as long as the taxpayer has lived in the property at some time beforehand. Therefore the 18 month period from April 2013 to October 2014 is treated as a period of occupation.

Because the taxpayer never returned to the property the period from April 1995 to April 2013 will be treated as a period of absence.

Therefore the taxpayer will have 14½ years of occupation and 18 years of absence. These total 32½ years – i.e. the period between April 1982 and October 2014.

	Occupation	Absence	Total
April 1982 – April 1990 (actual)	8		
April 1990 – April 1992 (any reason)	2		
April 1992 – April 1995 (actual)	3		
April 1995 – April 2013 (never returned)		18	
April 2013 – October 2014 (last 18 months)	1½		
Total	<u>14½</u>	<u>18</u>	<u>32½</u>

The taxpayer sold the property and made a gain of £600,000. The PPR relief is therefore the gain, multiplied by the period of occupation, divided by the period of ownership.

Gain	£ 600,000
Less: PPR relief $600,000 \times 14.5/32.5$	<u>(267,692)</u>
Chargeable gain	<u>332,308</u>

From these two illustrations, you will note the technique we use to identify periods of occupation and periods of absence. Identify each separate period, dealing with actual occupation first. Remember that any absences can only be counted as deemed occupation if the taxpayer returns to the property at some time in the future. Once you have a “sandwich”, consider the three periods of deemed occupation. Finally, do not forget that as long as the taxpayer has lived in the

property at some point, **the last eighteen months of ownership will always count as occupation.**

17.5 Delay in taking up residence: ESC D49

It is common in practice for an individual to acquire a house to live in as his main residence but then to be unable to occupy the property immediately because certain alterations or decorations need to be carried out.

There is therefore a period of “absence” created at the start of the period of ownership.

ESC D49 allows PPR relief during this period of absence provided it does not exceed 12 months. Where there are good reasons for the period exceeding 12 months which were outside the individual's control, the period may be extended up to 2 years.

The period of absence is treated as a period of occupation only if, when the alterations etc are completed, **the new dwelling house becomes its owner's only or main residence.**

The effect of ESC D49 is to extend the period of occupation in respect of a newly acquired dwelling house.



Now test your understanding by attempting the following example(s) where relevant and the questions from this chapter in your Question Bank.

EXAMPLES

❖ Example 1

Samuel sold his house in Kent in December 2014 making a gain of £100,000. He bought it in December 2004 and lived in it until December 2008 at which point he was sent on an assignment to Scotland by his employers and lived in employer provided accommodation. He returned to Kent in 2014 but never re-occupied the property.

Calculate the principal private residence relief available to Samuel.

❖ Example 2

Adrian made a gain of £315,000 on the sale of his flat in London in March 2015. He bought the flat in March 1993. In March 1995 he was relocated to Bristol where he lived with his parents until March 2004. He returned to the flat and lived there until March 2009 at which point he moved to Windsor to live in his girlfriend's house. Adrian never returned to the flat.

Calculate his chargeable gain.

ANSWERS

✓ Answer 1

	Occupation	Absence	Total
December 2004 – December 2008 (actual)	4		
December 2008 – June 2013 (never returned)		4½	
June 2013 – December 2014 (last 18 months)	1½		
Total	<u>5½</u>	<u>4½</u>	<u>10</u>

PPR relief: $100,000 \times 5.5/10 = \underline{55,000}$

✓ Answer 2

	Occupation	Absence	Total
March 1993 – March 1995 (actual)	2		
March 1995 – March 2004 (first 4 years – working in UK)	4		
(next 3 years – any reason) (remainder)	3	2	
March 2004 – March 2009 (actual)	5		
March 2009 – September 2013 (never returned)		4½	
September 2013 – March 2015 (last 18 months)	1½		
Total	<u>15½</u>	<u>6½</u>	<u>22</u>

Gain	£
	315,000
Less: PPR relief	
$315,000 \times 15½/22$	(221,932)
Chargeable gain	<u>93,068</u>

PRINCIPAL PRIVATE RESIDENCE RELIEF

If a taxpayer sells his only or main residence, PPR relief may exempt all or part of the gain arising.

(TCGA 1992, s.223)

The term PPR means a dwelling house and includes any relevant buildings within the curtilage of the main house. The relief also covers a garden of up to half a hectare (including the site of the house), or larger if required for reasonable enjoyment of the property.

(TCGA 1992, s.222)

The amount of the relief available is

$$\text{Gain} \times \text{Period of occupation of property} / \text{Period of ownership}$$

Occupation includes both actual and deemed occupation.

The **last 18 months of ownership (3 years for disposals pre 6.4.2014) of ownership always count as deemed occupation** as long as the house was occupied at some point by the taxpayer.

Three further types of absence will count as **deemed occupation** provided the taxpayer **lived in the house at some point before and at some point after** the absence.

These absences are:

- any period when employed abroad;
- up to 4 years when working away from home (this includes self-employment);
- up to 3 years for any reason.

These periods can apply cumulatively. Remember to check that the taxpayer did reoccupy the house.

If a taxpayer acquires a house as his main residence but is unable to occupy it immediately in order to carry out alterations/redecorations, **ESC D49** treats this 'period of absence' as occupation provided it does not exceed 12 months (extended to 2 years where due to reasons outside of the individual's control).