Capital Gains Tax: Private Residence Relief: changes to the ancillary reliefs: consultation responses

Personal tax

01 July 2019

The CIOT, ATT and LITRG have made representations to HMRC and HM Treasury highlighting their concerns over changes to private residence relief (PRR).

From April 2020, the government wishes to reduce the final period exemption for PRR from 18 months to 9 months. As with the reduction from 36 months to 18 months in April 2014, the change is being introduced in order to tackle a perceived exploitation of the rules, which allow an individual to accrue PRR on a second dwelling for the same period. In addition, the government also wishes to restrict lettings relief such that it only applies to periods where the owner is in occupation with the tenant, even for periods prior to April 2020. It is stated that this is to focus the relief to owner-occupiers in accordance with the 'original policy intention'. The changes will coincide with the new 30-day reporting requirements for residential property disposals.

The consultation also proposes legislating ESCs D21 (late claims in dual residence cases) and D49 (short delay by owner-occupier in taking up residence), extending the benefits of job-related accommodation in cases where service personnel rent in the private sector as part of the Future Accommodation Model, and ensuring that in transfers between spouses or civil partners, the PRR history is always transferred.

As well as making clear that communication of any change is essential, our submissions suggest that:

- subject to evidence, a period of nine months may not be a long enough period to sell a property in a sufficient proportion of cases (there are likely to be regional and other variations) – especially in cases of separation;

- the assertion that the ‘original policy intention’ for lettings relief was that it should apply only where there is shared occupation is questionable, and in any case the changes to lettings relief should not apply to periods prior to April 2020 in order to avoid a cliff-edge effect – there is a balance to be struck between simplicity and avoiding retroactive impact where there has not been abuse;
- the rule changes may incentivise landlords to sell their properties, especially prior to their introduction, with knock-on impacts for tenants in the private rental sector.

LITRG and CIOT also argue that the scope of the exemption for those disabled or resident in a care home, where a 36-month final exemption period applies, should be extended to include those prevented from living in their home for health reasons.

On the legislation of ESC D21, the CIOT have suggested that a better approach will be to exclude the need to consider interests that have no capital value when deciding which of two properties is a main residence.

The ATT’s response also focuses how the changes impact the use of Statement of Practice 14/ 80, whereby an individual who lets a room to a lodger and sharing their living accommodation and meals with them may continue treat the whole property as their main residence. It is not clear whether individuals currently relying on this concession may continue to do so after April 2020.

The full CIOT response can be found on the CIOT website.

The full LITRG response can be found on the LITRG website.

The full ATT response can be found on the ATT website.