



UNDERSTANDING
PRIVATE
RESIDENCES

**JACKSON
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PRIVATE RESIDENCES

Are you fully aware of the tax law relating to 'private residences' and how the rules can apply to help you retain maximum proceeds on a sale?

In recent years, "the second home" has received some focus in the press on the back of the UK's Members of Parliament expenses scandal. That scandal, which dealt with claims for costs of maintaining a second home (and not with taxation in relation to disposals of those homes, it should be noted) highlighted just one important feature of the somewhat flexible tax rules, rules which are to the potential advantage of residential property owning taxpayers.

Despite this unfortunate press, the tax rules remain intact and conducive to the achievement of gross proceeds on disposals of residential property in certain circumstances. Indeed, in view of the 28% rate of CGT for disposals of investment assets, this scope for tax mitigation remains highly valuable.

Many owners of residential property have taken advice from us and have been successful in reducing their tax liabilities over many years. We expect this valuable (and wholly legitimate) tax mitigation to continue.

Let us outline a few of the key features of the tax rules which set the landscape for planning, and which owners of residential property may want to understand more fully:

- The "private residence" is generally exempt from capital gains tax. We have to say "generally" because there are important exceptions to this;
- The "private residence" typically includes an area of land or curtilage surrounding the house itself, although the area which is exempt from tax can vary according to the circumstances;
- Taxpayers who own more than one residence can generally elect which one is to be treated as the private residence for taxation purposes – this is what has become known as "flipping";
- The election referred to immediately above can be reversed and re-instated multiple times to suit the wishes of the owner in their specific tax circumstances;
- A residence which has been the owner's "private residence" at any time remains to be treated as exempt for the last 18 months of ownership, irrespective of its usage during that time.

- A further relief then applies if a residence, which was once the owner's "private residence" is "let", providing an exemption for up to a further £40,000 of gain on disposal.

The above features of the law are not simple to access in the normal course of domestic and commercial life. They require careful planning. What is clear however, is that significant exemption from gains on residential property is often possible to achieve in the most unexpected situations.

From April 2017, individuals will be able to take advantage of a family home allowance so that they can pass their home on to their children or grandchildren inheritance tax free after their death. The allowance will be worth £175,000 per individual but will be tapered away for those leaving a home worth more than £2 million.

Please speak to us about this area of taxation if you are contemplating residential property acquisitions or if you are already an owner looking to make the most tax efficient disposal(s) in the short or medium term.

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