



## WHY MAKE A PRINCIPAL PRIVATE RESIDENCE ELECTION?

Taxpayers with two or more residences have the right to elect which of these is to be regarded as their 'Only or Main Residence' for Capital Gains Tax (CGT) purposes. This can produce significant tax savings on the eventual disposal of the residences in a period of rising property prices although some care needs to be taken in order to capture the full benefits.

The circumstances are best illustrated by way of example:

Brian and his wife Jean live in Chiswick and have a four bedroom house in which they live with their children. They also have a holiday home in Cornwall, which they occupy from time to time for holidays and other visits. Although Chiswick is clearly the main residence, they take advice and decide to elect for the Cornwall house to be their main residence for a short period (say two weeks). This is a Principle Private Residence (PPR) Election and gives the following benefits when Cornwall is sold:

- The gain attributable to the short period of election is exempt
- The gain attributable to the last three years of ownership is automatically exempt
- Any gain attributable to any period of letting may be exempt subject to certain conditions. An upper limit of £40,000 (£80,000 for married couples) applies.

Our normal advice is that a PPR election should be made in respect of second (or indeed further) residences in order to get the benefits outlined above. This must be done within two years of a change of residence or the tax planning opportunity is lost. (If the two year window is overlooked, there may be opportunities for triggering a new two year period through careful planning).



You should keep us informed of any change of residence. As well as the more straightforward situation of an acquisition or disposal, a change of residence might also include a property that was previously let out, now being occupied as a holiday home or residence.

Married couples or civil partners can only have one main residence. An election can, and generally should, be made in respect of an overseas residence although it should be remembered that this will not prevent foreign CGT being charged by the local jurisdiction upon a sale. This overseas tax should, however, be available as a credit against any UK liability. In certain circumstances, a PPR election can be made for a residence owned by a Trust.

Although generally PPR elections are extremely beneficial in tax terms, it should be borne in mind that there may be disadvantages in making elections where property prices fall over the whole period of ownership. (They are best deployed when property prices are expected to increase in the long term). Moreover, by making a PPR Election for the second home, albeit for a short period, it will result in a small part of the gain on the other property being chargeable to the extent that the gain arose in the corresponding short period - in most cases this will be covered by the annual CGT exemption.

A property must be truly a residence of the individual concerned and there might be circumstances where specific advice is needed on this aspect.

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