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Capital Gains Tax for owners of Two Homes

Ownership of two homes in the UK is becoming more common as couples who both own houses marry, houses are inherited, parents buy houses for their children to live in, or people just buy a place in the country, either to let or to escape to at weekends. Owning two houses however does have significant Capital Gains Tax (CGT) implications.

Q. When my husband and I got married two years ago, we kept our individual houses because of work; we couldn't live together at the time. We are now planning to sell both the houses, in order to buy a larger house together. What is the tax position? In the current climate we do not know the houses will take to sell.

A. The answer is greatly dependent on whether you have passed your 3 year wedding anniversary at the time when you sell the houses. If you have not then things will be much simpler. The final 36 months of ownership of a property is treated as though you lived there, whether you did or not, allowing you both to claim this 'deemed' principal private residence relief, and exempting the whole period of your ownership from Capital Gains Tax.

The situation if you have passed your three year wedding anniversary when the houses are sold is a little more complex, because as a married couple you cannot under normal circumstances have two Principal Private Residences (PPR's).

Firstly, if there were exceptional circumstances which prevented you from living together then you may like to get in touch with the taxman to see if HMRC will allow you, by concession, to each have a Main Residence for that period. Otherwise you will have to nominate one of the properties as your Main Residence. This should be done within two years of your marriage. In general it would be sensible to nominate the property which you believe has risen in value the most to be your PPR.

Q. Would letting out one of the houses make any difference?

A. Possibly yes, as that property would then qualify for letting relief, exempting up to £40,000 of gain as well. This would need to be integrated with the correct Main Residence nomination.

In summary with a little judicious planning, it should be possible to minimize or even eliminate completely any tax bill.

As with many decisions you really do need to take independent financial and tax advice. If you would like our help call Julia on **0151 228 8977** at **John Kerr Chartered Accountants** 369-375 Eaton Road, West Derby, Liverpool L12 2AH. Authorised and regulated by The Financial Services Authority

