



**By Mark Fletcher**  
**Director of Crombies Accountants**  
[mfletcher@crom.co.uk](mailto:mfletcher@crom.co.uk)

## Disappearing gains

**The press focus on MPs second homes earlier in the year brought the capital gains tax (CGT) position on the sale of homes generally to the fore, but what does tax law actually allow?**

First, to be exempt the property must not have been purchased for the sole reason of making a profit and second, the dwelling must be an individual's only or main residence throughout the period of ownership.

The exemption is for one property per person or married couple (including a registered civil partnership) only; so if another residence is acquired an election can be made as to which property is to qualify and which is not. The election can be made within two years of a change in the number of residences available.

For example in a situation where, on marriage, each party owns his or her property, an election can be made within two years of the marriage as to which residence is the main qualifying one. As many couples aren't aware of the need for an election to be made they miss the cut off date. In that situation HMRC and not the couple have the right to decide which property is exempt based on the facts presented.

It is possible for two properties to be eligible for exemption because where an owner does actually reside in more than one property for some time during the period of ownership, the last three years of ownership is generally treated as exempt as well as any period of actual occupation as a main residence. In some cases that will mean that the entire gain on both residences is exempt.

For example, Alex has owned a main residence in Luton for the last seven years. Fed up with commuting he buys a flat in central London and elects for this to be his main residence. Exactly four years later he sells his home in Luton. This is exempt for the first seven years as it was his main residence and for the last three years of ownership. So 10/11 of the gain will be exempt from the capital gains tax. If, two years later, he sells the London flat and moves elsewhere, the whole of that gain will be exempt.

**“It is possible for two properties to be eligible for exemption because where an owner does actually reside in more than one property for some time during the period of ownership, the last three years of ownership is generally treated as exempt as well as any period of actual occupation as a main residence.”**

The main residence exemption can be complex and often causes a good deal of misunderstanding. If you are due to carry out a transaction in property and wish to receive advice on a strategy for capital gains mitigation, make contact with us.



*Crombies Accountants Ltd.*  
*34 Waterloo Road*  
*Wolverhampton*  
*WV1 4DG*  
*01902 773 993*

The above article was taken from *Prosper Magazine*, Oct/Nov 2009, p.22.

