

# Flipping your homes

By Bob Wheatcroft, Tax Partner at Armstrong Watson

The subject of Capital Gains Tax on second homes has been a topical one of late. Many will have wondered how it is possible for MPs to have one main residence for expenses purposes and another for Capital Gains Tax (CGT). You do not of course have to pay CGT on a property that has always been your main residence but second properties are normally subject to tax.

It is certainly not my intention to debate the rights and wrongs of the parliamentary expenses row but I am able to comment on the tax position for second homes. I can certainly confirm that, for tax, it is sometimes possible to change your main residence and that the one you choose need not necessarily be where you live most of the time. The ability to do this is not limited to MPs but is open to anyone with more than one home.

The basic rule is that, if a property counts as your main residence for only some of the time that you own it, then only that proportion is exempt from CGT. The ability to choose which of more than one home is treated as your main residence for tax does, however, provide considerable scope for extending this exempt period in some cases.

At the outset I should stress that this choice is only possible between properties in which you live for some of the time. If you own a property that is rented out then it is not your residence at all and so you can't argue that it is your main residence. What constitutes a residence is quite another matter and space here does not permit a discussion of that. Where a property has been a main residence but for some period has also been let, then the capital gain relating to the main residence period is exempt but you also get some additional exemption for part at least of the rest.

In fact, if you have a period when a property is your main residence, the rules are really quite generous. You receive 'bonus' exempt periods for the whole of the last three years of ownership. There are also special

rules designed to help some people who have to work away from home for periods.

The ability to make a choice only lasts for a period of two years from the date someone acquires an additional property. That is a key deadline. Once made, there is complete flexibility and the choice can be varied as often as you like. In practice this means that many second homes attract little or no CGT. If you don't make a choice within the two year period then the main residence for tax really does have to be the main residence in fact.

Maybe one by-product of the present political furore will be the abolition of the right to choose your main residence for tax purposes. Until and unless that happens it will continue to be exploited by those wishing to pay less tax.

For further information on how Armstrong Watson can help you, call freephone 0800 195 2161 or email [moneymatters@armstrongwatson.co.uk](mailto:moneymatters@armstrongwatson.co.uk)