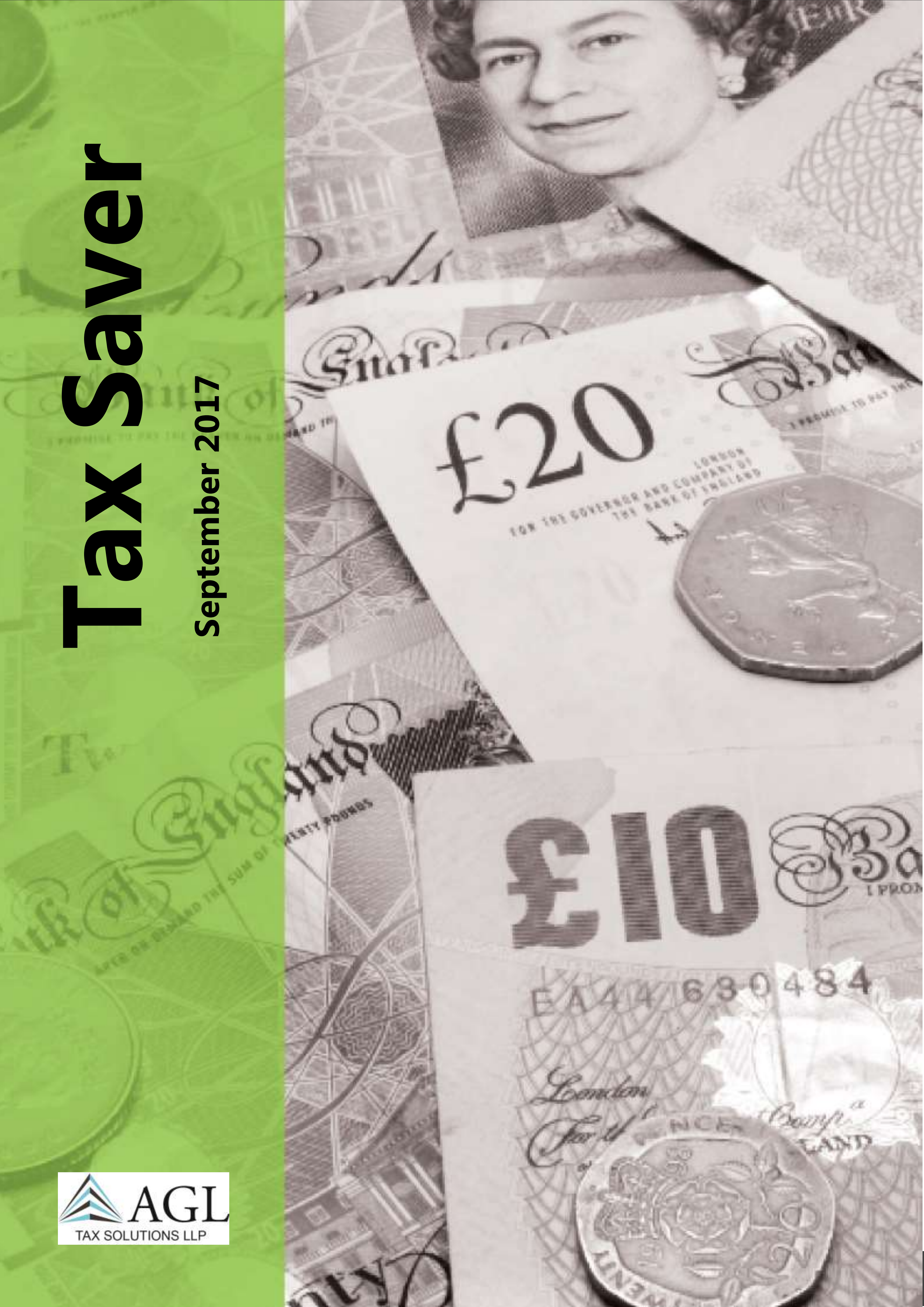
Tax Saver

September 2017



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How's The Family? Penalties and Reasonable Excuse

AGL Tax wonders if HMRC properly considers whether penalties are appropriate when taxpayers file their tax returns late due to serious illness.

Every year, numerous appeals by taxpayers against penalties from HM Revenue and Customs (HMRC) for the late submission of tax returns reach the First-tier Tribunal.

Excuses, excuses...

Those taxpayers are normally appealing to the tribunal for the penalties to be set aside, on the grounds that they had a reasonable excuse for filing their tax returns late. There is a statutory 'let-out' from a penalty, broadly, if the taxpayer can satisfy the tribunal that there is a reasonable excuse for the late filing of the return (although if the reasonable excuse has ended, the return must be filed without unreasonable delay thereafter (FA 2009, Sch 55, para 23)).

Unfortunately, there is no statutory definition of 'reasonable excuse'. However, it is commonly accepted that this ' is a matter to be considered in the light of all the circumstances of the particular case' (Rowland v HMRC [2006] STC (SCD) 536).

What if the late submission of a tax return was caused by (say) serious illness? HMRC states (in its Compliance Handbook manual at CH61560): 'We will normally treat the serious illness of the person or a close relative or domestic partner around the time when the person should have delivered the return or document as a reasonable excuse.'

Taxpayer illness

However, HMRC may be reluctant to accept serious illness as a reasonable excuse for the late filing of tax returns in practice. If an appeal against a late filing penalty has reached the tribunal, invariably HMRC will have rejected the taxpayer's reasonable excuse claim. Fortunately, the tribunal sometimes reach a different conclusion.

For example, in Appellant v Revenue and Customs [2017] UKFTT 839 (TC), the appellant's mental illness was held to be a reasonable excuse for the late filing of tax returns (and late payment of tax). Similarly, in Hindocha v Revenue and Customs [2017] UKFTT 373 (TC), the tribunal decided that anxiety, depression, and panic attacks suffered by the appellant constituted a serious mental illness, which provided the appellant with a reasonable excuse for the late submission of his tax return (and his late payment of tax).

Sadly, it appears not, although once again the tribunal may come to the rescue, depending on the circumstances.

For example, in McDonald v Revenue and Customs [2017] UKFTT 265 (TC), the appellant, a self-employed therapist and counsellor, failed to submit her return for the tax year 2010/11 until 17 September 2012 (the latest filing date for the return was 31 January 2012). HMRC imposed late filing penalties. The appellant appealed. She pointed out that her mother had suffered a succession of strokes and spent the last 15 months in hospital prior to her death. Furthermore, the appellant's father was diagnosed with terminal cancer and she had provided care to him. The appellant's mother died in April 2010 and her father died in September 2010. The appellant then had to deal with her bereavement and her late parents' affairs (including probate on her father's estate, which was still ongoing in November 2012), as well as bringing her tax affairs up-to-date. HMRC refused her appeal on the grounds that it was out of time.

However, the First-tier Tribunal considered that the appellant had clearly gone through a prolonged period of difficulty and it was understandable that during this period the appellant omitted to give proper attention to her tax affairs. HMRC argued that the appellant was able to continue her business, so there was no reasonable excuse (or special circumstances).

However, the tribunal disagreed, stating that the appellant had to work to support herself and pay the everyday expenses of keeping her home. The tribunal held that the appellant had established a reasonable excuse for the late submission of the tax return. Her appeal was allowed.

Practical Tip:

HMRC considers that a reasonable excuse is normally 'an unexpected or unusual event that could not be reasonably foreseen or is beyond the person's control', which prevents the person from filing the return on time (see HMRC's Compliance Handbook manual at CH61540). However, that phrase was taken from a dissenting judgment in another case (Customs and Excise Commissioners v Salevon Ltd [1989] STC 907). The tribunal in McDonald therefore considered HMRC's use of that phrase to be inappropriate. This was not the first time that a tribunal objected to its use (e.g. see Shuttari t/a Shuttari Paul & Co. v Revenue and Customs [2017] UKFTT 314 (TC)). Taxpayers and advisers should, therefore, point this out if HMRC tries to use the phrase against them in a reasonable excuse context.

All Change! NICs and Landlords

AGL Tax runs through forthcoming changes to National Insurance contributions, and in particular how they may affect landlords.

Whether or not a landlord is currently liable to pay Class 2 National Insurance Contributions (NICs) depends on whether the landlord falls within the definition of a 'self-employed earner' for NIC purposes, and if so, whether profits are in excess of the existing small profits threshold (£6,025 for 2017/18).

The definition of a self-employed earner is set out in the Social Security Contributions and Benefits Act 1992 (s 2(1)(b)) as someone 'who is gainfully employed in Great Britain otherwise than in employed earner's employment (whether or not he is also employed in such employment)'. Generally, but not always, a person who is regarded as self-employed for income tax purposes and who is taxed on the profits from their trade, profession, or vocation will also be regarded as a self-employed earner for NIC purposes and as such will be liable to pay Class 2 (and also Class 4) NICs. By contrast, a person who receives investment income is not liable to pay NICs on that income.

Being liable to pay Class 2 NICs is not necessarily a bad thing – these contributions give the payer access to certain contributory-based benefits for a relatively cheap investment - £2.85 per week for 2017/18 (equating to £148.20 for the year). To date, where NICs are not otherwise payable, it may be advantageous for landlords to consider turning ' investment' letting into a business to bring it within the scope of Class 2 NICs – in particular, this may be a cheap and effective way to build up entitlement to a state pension.

Abolition of Class 2 NICs

Self-employed people may currently be required (subject to certain criteria) to pay both Class 2 and Class 4 NICs. Class 4 NICs are, broadly, calculated by reference to the payee's profits. For 2017/18, they are payable at the rate of 9% on profits between £8,164 (the lower profits limit (LPL)) and £45,000 (the upper profits limit (UPL)), and at 2% above £45,000.

NICs for the self-employed will fundamentally change from April 2018. From that date, Class 2 contributions will be abolished and the Class 4 contributions system will be reformed to include a new threshold (the small profits limit (SPL)). It is not yet known what the new profit limits will be. We do, however, know that after Class 2 NICs have ended people with profits between the SPL and LPL will not be liable to pay Class 4 contributions, but will be treated as if they have paid Class 4 contributions for the purposes of gaining access to contributory benefits. All those with profits at or above the Class 4 SPL will gain access to the new state pension, contributory employment and support allowance (ESA) and bereavement benefit. Those with profits above the LPL will continue to pay Class 4 contributions.

The abolition of Class 2 NICs will have adverse consequences for those with profits below the current small profits threshold, who are not obliged to pay Class 2 NICs but are doing so voluntarily in order to build up their contributions record. If they wish to continue to secure contributory benefits by paying NICs after April 2018, they will instead have to pay voluntary Class 3 contributions, currently payable at the rate of £14.25 per week – this is five times the Class 2 contribution rate, and makes a difference of £592.80 based on 2017/18 rates!

Practical Tip:

Self-employed businesses and landlords should check their NICs record for the last few years. This is a relatively straightforward process and can be done online at https://www.gov.uk/check-national-insurance-record. Those wishing to protect their state pension entitlement should ensure that they have paid, and continue to pay, as many Class 2 contributions as they need to before abolition in April 2018. A total of 35 years of contributions paid or credited is currently needed to secure entitlement to the full state pension. The minimum needed to secure any state pension is ten years.

How to Reduce Irrecoverable VAT for Partly Exempt Businesses

AGL Tax looks at ways in which partly exempt businesses can improve their VAT position.

A business that makes a mixture of taxable and exempt supplies is known as 'partially exempt'. Businesses that make exempt supplies are not entitled to recover the VAT on costs associated with making the exempt supplies, and so cannot recover all of the VAT that they incur.

However, there are some things that a business can do to reduce the amount of irrecoverable VAT that it incurs.

Reduce the amount of VAT incurred

There are several things that a business can do to reduce the amount of VAT that the business incurs.

From a VAT perspective, a partially exempt business should employ its own staff and not hire in temporary agency staff. VAT is charged on the supply of agency staff, and if they are used in making exempt supplies that VAT is irrecoverable.

Businesses that are part of a 'group' of associated companies often make intercompany charges in order to recover costs incurred by one business and used by another. If one or more of the businesses are partially exempt, there can be irrecoverable VAT on the intercompany charges.

To reduce the amount of VAT on the intercompany charges, the use of common directors can be useful. Any charges of director's costs where they are directors of both companies are not supplies for VAT purposes, and no VAT is due on the recharges.

Similarly, the recharging of staff time between companies is a taxable supply, so staff that work for two or more companies should have joint contracts of employment. Any recharges are not considered to be supplies for VAT purposes, and no VAT is chargeable.

Forming a VAT group between two or more corporate entities under common control can also reduce the amount of irrecoverable VAT on intercompany transactions. Any supplies between members of a VAT group are disregarded for VAT purposes, and no VAT is chargeable on them.

Increase taxable supplies

The more taxable supplies a business makes, the greater proportion of VAT on overheads is recoverable. As an alternative to reducing the amount of irrecoverable VAT incurred on purchases, partially exempt businesses can also increase the value of their taxable supplies so that the proportion of irrecoverable VAT on overheads is reduced.

For example, if staff work for several companies and they cannot be VAT grouped, have the one that makes the most exempt supplies employ them, and recharge part of the cost to the others. The recharge of staff costs is a taxable supply so the proportion of taxable income increases, with a consequent increase in recoverable overhead VAT. Even if the other companies are not fully taxable, this can reduce the overall lost VAT.

If a business is involved in commercial property rental, it should consider opting to tax its properties. This converts an exempt supply of property rental into a taxable supply, and all the VAT costs associated with the opted properties becomes recoverable.

If a business is renovating empty residential property (empty more than ten years), or converting non- residential property into residential use with the intention of renting it out, the VAT is not recoverable as the rental income is exempt from VAT. If they set up an associated business to deal with the rentals and sell or long lease the properties to them, they create a zero- rated taxable supply, and VAT on the renovations/ conversion is then recoverable.

Practical Tip:
If your business is partially exempt, you can improve the VAT recovery position by taking steps to reduce the amount of irrecoverable VAT incurred, or by increasing the amount of taxable supplies being made.

HMRC Thrash Rangers in Epic 'EBT' Final!

AGL Tax explains why the game is finally up for 'employee benefit trust' arrangements.

The Glasgow Rangers employee benefit trust (EBT) case (RFC 2012 Plc (in liquidation) (formerly The Rangers Football Club Plc) v Advocate General for Scotland [2017] UKSC 45) must go down as the defining tax avoidance case of the current decade.

Over the past few decades or so, EBTs and similar structures have been widely used. Such arrangements generally relied on a literal construction of tax law (as it then stood) to avoid PAYE and National Insurance contributions (NICs) on directors' and senior managers' pay. Of course, to the layman (and indeed almost all tax professionals) these arrangements look like an 'offensive' tax dodge. It was therefore left to the courts to decide whether they were legitimate tax planning or (unacceptable) tax avoidance.

HMRC won the case with comparative ease, with all five judges finding in its favour. The Supreme Court judgment confirms the developing jurisprudence that the courts have firmly moved away from a 'generally literalist interpretation' of tax law to a more purposive and realistic approach.

Key facts

Between 2001 and 2008, the club's parent company made contributions of £55.5 million and €5.3 million to its employees' remuneration trust. This was referred to as 'the Principal Trust', which had all the characteristics of a typical EBT.

Where the company wished to benefit a particular player/employee, it made a 'pre-agreed' cash contribution to the Principal Trust ('the EBT') in respect of that employee. The company also recommended to the EBT trustee that the amount be resettled on a sub- trust, to be applied in accordance with the employee's wishes.

When new players were recruited, the discussions focused on the 'net of tax' pay they would receive and the existence of the sub-trust mechanism. They were told that a loan from the sub-trust would enable them to receive a greater amount than if they received pay net of normal PAYE/NIC deductions!

In addition to their employment contract (recording an agreed 'lower' salary), the company provided each player with a 'side letter' under which it undertook to carry out the relevant 'sub-trust' arrangements, referring to the sums that had been agreed in prior negotiations. The player also completed a loan application, which was always made for the agreed amount.

Supreme Court findings

The judges of the Supreme Court (upholding the Scottish Court of Session's thinking) unanimously concluded that the 'redirection principle' must be applied. This says that any payment that derives from an employee's work must be taxed as earnings, even where the employee directs or agrees that it should be paid to a third party. The payments/contributions made to the EBT in respect of a player/other employee constituted their taxable earnings, and therefore should have been subjected to PAYE and NICs.

Lord Hodge emphasised that the general 'earnings' charging provisions in ITEPA 2003, s 62 (and its predecessor) do not contain any specific requirement for the earnings to be received by the relevant employee. Consequently, payments deriving from an employee's labour fall to be taxed as earnings, even where they are assigned (with the employee's agreement or acquiescence) to a third party.

It was perhaps inevitable that Lord Hodge had to conclude that the Special Commissioners had previously incorrectly decided Sempra Metals Ltd v HMRC ([2008] STC (SCD) 1062) and Dextra Accessories Ltd v Macdonald [2002] STC (SCD) 413).

Final thoughts

HMRC will now be able to use its follower notice and accelerated payments notice weapons to collect the relevant tax from those EBT users who have not 'paid- up'. They really have very little option but to 'throw in the towel' and settle with HMRC.

Practical Tip:

The Supreme Court ruling serves as a useful reminder to us all that contrived, abusive, and egregious tax avoidance schemes will not be tolerated by HMRC or the tribunals/courts.

Don’t Waste Sole Trader Trading Losses

AGL Tax explains how to maximise cash-flow by efficient trading loss usage.

No sole trader deliberately sets out to make trading losses but, typically, for many they are almost inevitable, particularly in the early years of trading.

Carry forward versus carry backwards?

Trading losses can be carried forward indefinitely and set off against future trading profits, thus reducing the income tax charge on any such profits. Unfortunately, the monetary value of the losses is in principle lessened the further in the future that they are able to be utilised.

Example 1: Trading losses carried forward

Joe Blue finds that in each of his first four tax years of operation (2014/15, 2015/16, 2016/17 and 2017/18) he makes trading losses of £15,000, £12,000, £5,000 and £1,000 respectively.

In the four following tax years, his trading profits are £3,000, £5,000, £7,000 and £10,000.

His aggregate trading losses of £33,000 can be offset against the trading profits of the succeeding four tax years of trading profits but even so, eight years after Joe started his business, he still has £8,000 of unutilised trading losses.

Thus, for those sole traders (such as Joe) who make trading losses in their early years of operation, there is perhaps little comfort knowing that income tax charges may be reduced in the future. It is at the time the losses are incurred that the sole trader would ideally like to use them, to reduce any tax bill and enhance cashflow.

Perhaps surprisingly, the tax rules go one better, and in fact allow income tax paid before commencing a sole trader business to be repaid!

Carry back of trading losses

Where a trading loss is incurred in any of the first four tax years of trading, the loss may be carried back and offset against the trader ’s ‘total income’ of any of the immediately preceding three tax years (offset against earlier years first).

‘Total income’ refers to a trader’s income for the relevant tax year comprising the aggregate of all categories of income. Such categories include employment income, rental profit, bank interest, dividend income, etc.

Such a relief offers the new sole trader significant tax savings at the earliest possible opportunity.

Example 2: Trading losses carried back

Joe Blue (see Example 1 above) prior to setting up as a sole trader was an employee with total income (most of which comprised Joe’s salary) in the tax years 2011/12, 2012/13 and 2013/14 of £15,000, £16,000 and £17,000 respectively.

Instead of carrying his trading losses forward, Joe decides to carry them back.

Accordingly, Joe offsets the £15,000 trading loss of 2014/15 against his total income of £15,000 for 2011/12. The £12,000 trading loss of 2015/16 is offset against his total income of £16,000 for 2012/13. The trading loss of £5,000 of 2016/17 is offset against the unused total Income of £4,000 for 2012/13 and the balancing £1,000 against the total income of £17,000 for 2013/14.

Consequently, Joe is able to obtain a refund of income tax he paid in each of the tax years 2011/12, 2012/13 and 2013/14.

However, Joe’s trading loss of £1,000 for the tax year 2017/18 can only be carried forward for offset against future trading profits because in each of the prior three tax years (i.e. 2014/15, 2015/16 and 2016/17) there is no total income against which such losses may be offset.

For Joe, the carry back option is vastly superior to the carry forward option and, in particular, in addition to tax savings offers him significantly improved cash flow at a time when he no doubt desperately needs it.

Carry back cap

For the tax year 2013/14 and later tax years, a cap was introduced which placed an upper limit on the extent to which relief could be claimed. The cap is the greater of £50,000 and 25% of total income. In Joe’s situation the cap is inapplicable, and for many sole traders is unlikely in practice to prove a problem.

When not to carry losses back

If marginal income tax rates are set to increase significantly in future tax years and prior tax years’ rates were relatively low, it may be more tax-efficient to simply carry forward any trading losses.

Practical Tip:

Proper planning is essential to avoid tax traps. Decide what is being sold, and at what price. You will need tax advice and specialist funding advice in advance. Good succession planning cannot start too soon.

A Fond Farewell? Funding Business Exits

AGL Tax outlines some different routes to a successful business exit and how to fund it.

Business exits can be planned or unplanned. The two main types of business under consideration are limited companies and partnerships, including LLP's. The planned successful exit will consider several factors, including:

- the reason for the purchase or sale (retirement, consolidation, profit taking, new blood, death, disability, etc.);
- the purchaser and purchase price, including the terms of payment;
- the valuation of the business for sale purposes (this should be ongoing);
- the best way to be paid for selling the business;
- taxation considerations;
- funding considerations; and
- legal and compliance requirements.

The way the purchase or sale is funded could have tax and other implications. For example, once company shares are sold for cash, the value of any inheritance tax business property relief is lost by the seller. Also, one would wish to be taxed on a capital gain with entrepreneurs' relief (if available) applying at 10% on the sale of shares, rather than as an income receipt where marginal tax rates apply of up to 45%. The latter could occur if the amount is seen as a revenue receipt or remuneration.

Buying out a shareholder or partner

The shareholder, for example, may have reached retirement age and wishes to sell their shares to other shareholders or third parties. Note that there may be constraints on who can buy and sell in the shareholder or partnership agreement. Usually, shares must first be offered to existing shareholders, or there may be a clause that an incoming partner may have to be a lawyer if it's a legal practice. The main problem is usually the lack of available cash of existing shareholders or partners to fund an exit.

Purchase company shares

Points to consider might include the following:

1. existing shareholders using their own capital or raising capital through loans (including a remortgage, where interest is deductible for tax purposes);

2. the company raises cash through borrowings or from private investors, or from the sale of assets, then buys back the shares of the exiting partner and cancels them;

3. if the shareholders insured each other and one died, cash is available to buy the deceased's shares; and

4. part of the exit funding package could consist of non- cash items, such as pension contributions or transferring ownership of a company asset.

Purchase a partnership/LLP share

Points to consider might include:

1. existing partners or new incoming partners providing their own funds or taking loans to fund the business entry or exit. Specialist lenders provide finance for professional partnerships, such as accountants, solicitors, and surveyors;

2. partners can contribute to a provident fund to provide funds in the future for a partner's exit;

3. partners can set up an unfunded annuity scheme as part of his leaving package; and

4. a partner would like their capital and current accounts in the business to be paid out to them (as well as a value for goodwill). This causes working capital problems, and part of any deal may be to replace working capital. There may also be issues if the partnership owns a property where value needs to be paid to a retiring partner.

Practical Tip:
Setting up a company rather than operating initially as a sole trader means that trading losses are locked into the company, thus precluding any carry back and early tax relief. Other things being equal, consider commencing trading as a sole trader.

Private Residence Relief: Beware the Restrictions

AGL Tax examines a recent First-tier Tribunal decision in which private residence relief was restricted.

In William & Anor v Revenue and Customs [2017] UKFTT 449 (TC), Mr and Mrs Ritchie did not have their house on the market, but they received a windfall when property developers knocked on their door one evening and offered them £2 million for their house and grounds. The developers wanted to develop the farmland beyond for housing, and needed the Ritchie's property for access.

Mr and Mrs Ritchie had two problems, though, when it came to securing capital gains tax private residence relief. First, they had purchased the site as a plot with just a couple of sheds, and it took them over seven years to build their house and occupy it as their residence. Second, the site was around 0.7 hectares. This is larger than the 0.5 of a hectare default 'permitted area' allowed for in the private residence relief legislation, and they would therefore need to prove that a larger area was required for the reasonable enjoyment of the property.

Permitted area

Much of the case concerned whether a large shed that was some 85 meters from the main house and used to store work tools, bulky household items, and ploughs, formed part of the dwelling house. The tribunal concluded that it did (see William & Anor v Revenue and Customs [2017] UKFTT 449 (TC)). The tribunal then decided that land to the rear and sides of the large shed, estimated to be around 0.1 hectares, was not within the permitted area and therefore did not qualify for private residence relief. This equated to around one- seventh of the area. Therefore, although the tribunal allowed the permitted area to be more than 0.5 of a hectare, it decided that

Period before occupation

The Ritchies had owned the property for less than twenty years. Given that it took them over seven years to build and occupy the house on the site, a time- apportioned gain (as in Henke v HMRC [2006] SpC 550) would have meant that a large proportion of the gain would not have qualified for private residence relief.

The tribunal was not comfortable with a time- apportioned approach as the property had been given a rateable value of £200,000 after construction, so any gain for the period prior to occupation was small given the cost of the land of £11,000 and construction costs of £179,900. The tribunal looked to the private residence relief legislation at TCGA 1992, s 224(2), which allows for a just and reasonable adjustment where, 'at any time in the period of ownership there is a change in what is occupied as the individual's residence, whether on account of a reconstruction or conversion of a building or for any other reason'. The tribunal considered that the wording 'any other reason' was not restricted, although if the general wording was restricted to things of the same type as the listed items (the eiusdem generis rule), the circumstances in this case were similar enough to the specific reasons stated in the legislation. The tribunal therefore concluded that the gain for the period of non-occupation was £9,100.

Practical Tip:

This decision highlights that it is not always the case that the sale of a person's home will qualify for private residence relief and escape capital gains tax. There can be numerous reasons why full relief will not be available (this case concerned just two), and it is important for taxpayers and their advisers to explore all qualifying criteria. Part of the reason this case ended up before the tribunal was that the advisers had failed to address the period of non-occupation.

The Tax Saver Gurus Answer Your Questions

Q.1 Do I need to declare the reinvestment amount for UK tax purposes just as if I had received the funds directly?

I have investments in hotel rooms which pay me a yearly rental amount. Last year, instead of making the payment directly to me, the company reinvested the amount so that I could purchase a new room for rental. So, no money changed hands. Do I need to declare the reinvestment amount for UK tax purposes just as if I had received the funds directly?

AGL Tax replies:

Yes, you do. You chose to immediately reinvest, and so you did not actually receive the cash, (you could have chosen to do anything with the incoming profits), but this does not take away from the fact that you made a rental profit.

Q.2 Would there be capital gains tax to pay on sale of this land?

I have a piece of agricultural land that my father left me 18 years ago. It has not been farmed in that time. The land is in my name, and I do not work. I am married. A developer is interested in this land, and I wonder what tax we would pay on the sale of this land?

AGL Tax replies:

There would be capital gains tax based on the difference between what the developer paid you, and what the land was worth when you acquired it 18 years ago.

Q.3 Should my parents have had the property in our names from the beginning?

Two years ago, my parents effectively borrowed £200,000 against their property so that my husband and I could buy a flat, with the intention of doing this until we are in a position to get our own mortgage. However, the property is officially in my parents' names. We assumed they could just sign it over to us when we were able and ready with our own £200,000 mortgage. However, we've recently heard about capital gains tax. My husband and I have been paying back the whole mortgage amount via my parents and funding any repairs and maintenance (new boiler, decorating etc.), and on top of the repairs we've funded the market value has risen significantly. We do not want to sell the property and plan to stay living here, but the flat needs significant and urgent improvement (a new roof and exterior repairs costing £7-10,000) and we wish to do a loft conversion, both of which we would pay for, raising the value even further. We don't think there should be capital gains tax (CGT) issues as it is our first home and my parents will not profit from helping us. Should my parents have just had it in our names from the beginning? Do we have any options?

AGL Tax replies:

Yes, your parents should have put it in your names from the beginning. When they transfer to you there will be CGT based on the difference between its market value on the date of the transfer, and what they originally paid for it. Additionally, if you take over responsibility for their mortgage, or if you pay off their mortgage, there will be stamp duty land tax for you to pay. However, it may be worth you speaking to a tax adviser, because (depending on the facts of the case) it could be that your parents were simply no more than legal owners, or nominees, or bare trustees, and you had the beneficial ownership in the property from the beginning - see www.gov.uk/hmrc-internal-manuals/capital-gains-manual/cg70230 and www.gov.uk/hmrc-internal-manuals/capital-gains-manual/cg65415 and subsequent pages there.

Q.4 Would I qualify for any lettings relief?

I purchased a buy to let property in 1994. Between 2001 and 2002 I lived in the flat, and since then it has been rented out. I now wish to sell the property for £200,000. The purchase price was £39,000. Would I qualify for any lettings relief?

AGL Tax replies:

Since the flat was for a period of time your qualifying principal private residence, you are eligible for a certain amount of lettings relief when you sell it, see www.gov.uk/hmrc-internal-manuals/capital-gains-manual/cg64650 and www.gov.uk/hmrc-internal-manuals/capital-gains-manual/cg64710