

The Royal Wedding: property and capital gains tax

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Background

1. There are various suggestions about where Prince William and his future wife will live after their wedding.
2. They currently rent a home near his Anglesey RAF base, and have been rumoured to either go on doing so for the remainder of his three year posting there, or to buy a home nearby which they might keep on as a holiday home after his posting finishes.
3. There is also a long-standing suggestion that a property being built by Prince Charles on the Harewood Park Estate in Herefordshire will be the couple's main home. It is not clear whether this would be given to them outright, or retained within the Duchy of Cornwall, since this will eventually be inherited by Prince William.
4. Depending on which of the above scenarios happens, there could be capital gains tax (CGT) consequences. Although the Duchy of Cornwall is exempt from CGT, Prince William has no special tax status himself.

Possible tax problems

5. If they are given outright (perhaps as a wedding present) the house at Harewood Park, it is unlikely to really be their main residence until after his posting in Anglesey ends. Regardless of where they live in Anglesey, they should therefore make an election under TCGA 1992 s 222(5), within two years of acquiring it, for Harewood Park to be their main home, so that they have no liability to CGT when they come to sell it.
6. However, if they also buy a property in Anglesey, they may want to consider 'flipping' the main residence exemption for a week to that property. As a result, the last three years of ownership of the Anglesey property would also be exempt from CGT. Although MPs taking advantage of this were criticised during the expenses scandal, it is a well-established piece of tax planning, which is even explained in HMRC's own manuals (CGM64510).
7. They might buy a house in Anglesey, but be given the use of Harewood Park while it remains the property of the Duchy of Cornwall. If so, they would want to nominate the Anglesey home as their main residence once they were no longer living there full-time, since this would preserve the CGT exemption that they would otherwise lose.
8. Finally, and probably most likely, they could continue renting in Anglesey, and occupy Harewood Park while it is owned by the Duchy of Cornwall. There would be no tax consequences, as the Duchy is exempt from CGT (above). However, this does cast doubt on the statement on the Duchy's own website (www.duchyofcornwall.org/fags.htm) that, even if it was liable to CGT, it would probably not pay any because its gains are reinvested in business assets. The renovation of the whole estate is estimated to cost £8 – 9 million, but if the Duchy were liable to CGT the amount spent on the main home and on other properties let long term would not have been eligible to shelter the capital gains reinvested in them. Assuming this is about 75% of the total spent, and if the Duchy were taxed as a trust, the CGT bill would be around £1.7 million.