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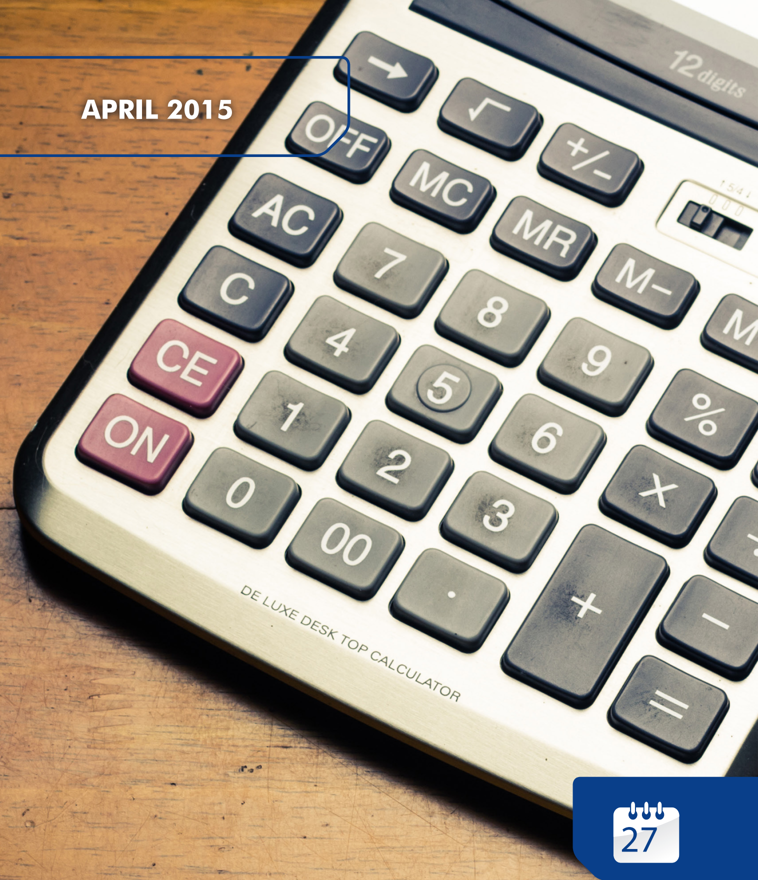

Personal Planning UPDATE

Capital gains tax planning

A guide to capital gains tax and how to make the most of your exemptions

Selling something you own for more than you bought it for is not only the basis of making a profit and doing 'good business'; it is also the start of your liability for capital gains tax (CGT).

In its broadest terms, CGT is a tax that applies when you dispose of an asset (meaning selling or giving away something that is legally yours), and you make a profit from that disposal. It is the amount you make over the original price you paid, or your 'gain', rather than the total amount you receive from the sale that is taxed under CGT.

As with most things tax-related though, the specifics are often a little more complex. Planning for CGT means taking a number of things into account, such as what is being sold and who it is being sold to.

What you pay CGT on

CGT is charged at 2 rates depending on which tax band you fall into. You will pay 28% tax on your gains if you are a higher or additional rate tax taxpayer. Basic rate taxpayers will pay between 18% and 28% depending on the size of the gain and taxable income.

The assets that you will have to pay CGT on when you sell them are known as 'chargeable assets'.

Chargeable assets
Most personal possessions worth over £6,000 (but not your car)
Any property that isn't your main home
Your main home if you let it out, use it for business or it is over 5,000 square metres
Shares (that are not in an ISA, NISA or personal equity plan)
Business assets

There are different rules if you are a UK resident that is not domiciled and claim the remittance basis. You may also have to pay CGT if you have assets in the UK but are temporarily living overseas.

Talk to us today to discuss the technicalities of your tax position.

Exemptions for CGT

While CGT is applied to most gains, there are a number of specific situations where it is not charged or the rate is reduced significantly.

130 High Street
Hungerford RG17 0DL
01488 682 027 Ruth@pbaaccountants.co.uk

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Tax-free capital gains

You will not be charged any CGT on the following gains:

- gifts between a husband and wife or between registered civil partners
- gifts to charities
- profits from the sale of your main home
- private cars
- personal possessions worth less than £6,000
- betting, pools or lottery winnings
- NISA, ISA, pension and trust fund assets
- proceeds from life insurance policies (unless they were bought second hand)
- gilts and shares held in certain plans
- a person's estate after their death.

The tax-free status for gifts to spouses or civil partners is exempted if you are separated, have not lived together for the last tax year, or they will be selling the gift on as part of their business for a profit. They will have to pay tax on the asset if they sell it on in the future, unless it falls under one of the exemptions listed previously.

You will be taxed if you sell a charity an asset for more than you paid for it originally or for less than the market value.

You will not have to pay CGT on any gains that are made under your Annual Exempt Amount, or tax-free allowance. The 2015/16 allowance for gains is £11,100.

Reporting and paying CGT

If you have made any gains in the current financial year that are not subject to exemptions or are over your personal allowance, you will have to calculate and report them in a self-assessment tax return.

If you are not used to sending tax returns, the date you need to register by is 5 October following the tax year you sold the assets in. The date you need to return the form by will depend on the method you choose to submit it. Online submissions are due on 31 January, while paper forms must be sent by 31 October.

Working out your CGT

If you are a higher rate tax payer you will pay CGT at 28%, but if you are a basic rate taxpayer the rate you pay could be either 28% or 18%. To work out your rate you need to know:

- your taxable income (your income minus your personal allowance and any other tax reliefs you claim)
- your total taxable gains (total gains minus your Annual Exempt Amount and any exemptions).

When you add these 2 figures together, if the total is less than the basic income tax band (£31,785 for 2015/16), you will pay CGT at a rate of 18%. If the total is higher, you will pay 28% on any amount above the basic rate threshold.

Other factors to consider

There are a number of other factors which may affect your final CGT liability. Firstly, if you are a trustee or personal representative of an individual who has died, you will be taxed at the higher rate on the trust or estate.

Secondly, it is possible for sole traders or partnerships to apply for Entrepreneurs' relief. If your gains qualify, you will only pay CGT at 10%.

Thirdly, you can use losses to reduce your total CGT bill in certain situations. A loss in this sense is the disposal of a chargeable asset in which you lost money. If your total taxable gains are above your Annual Exempt Amount, reporting these losses on your tax return may reduce the amount you have to pay.

Tips for CGT planning

Effective CGT planning is comprised of 3 key components: preparation, detailed knowledge and knowing a few handy tricks. This article has so far given a solid foundation for the first 2, and below is a brief list of things that may help you legally reduce your CGT liability.

- By transferring an asset in the joint names of you and your spouse or civil partner, you can effectively double your allowance by combining both individual ones. However, all transfers must be a genuine gift.
- Unmarried partners can nominate different main homes each to get relief on both.
- Certain kinds of collectables, antiques and paintings can be tax-efficient investments as they are not CGT liable.
- If you buy shares through a Save-As-You-Earn scheme, transfer them into an ISA or pension within 90 days to make them CGT-free.

We can help you with regards to all areas of CGT, from planning to paperwork and registration to reporting.

Contact us today if you don't want to spend any more time thinking about CGT than you need to.