Hammonds

Chartered Accountants and Business Advisers

Capital gains tax planning

A guide to capital gains tax and the reliefs available for 2017/18.

When you buy an item with the intention of selling it for a profit, that transaction is treated as a trade and you should pay income tax on the profit you make on the sale.

When you acquire an asset to use or hold for a period, the profit you make when you dispose of that item is treated as a capital gain, which is subject to capital gains tax (CGT). The difference between trading (income tax) and owning an item as an investment (CGT) can change depending on how you intend to use the item. For example, if you buy a house to let then sell it for a profit, you will pay CGT on the gain. However, if you buy a house with the intention of doing it up to improve its value, then sell at a profit, HMRC will view your activity as a trade and charge you income tax, and possibly national insurance, on the profit you make.

Rates

The distinction between trading and making a capital gain is important because the rates of tax you pay are different:

Taxpayer's income and gains:	Income tax on profits	CGT on most gains	CGT on residential property
Up to £33,500 (basic rate)	20%	10%	18%
Up to £150,000 (higher rate)	40%	20%	28%
Above £150,000 (additional rate)	45%	20%	28%

For Scottish taxpayers, the CGT rates depend on UK rates and thresholds for income tax rather than Scottish rates and thresholds.

Add together all your taxable gains and the taxable income you make in the tax year and that total determines which rate of CGT you pay from the table above. The income thresholds can be expanded by making gift-aid donations or personal pension contributions.

Tax-free amounts

Your taxable income is calculated after deducting your personal allowance of £11,500 and any allowable income losses. Your taxable gains are calculated after deducting your annual exemption of £11,300 and any capital losses.

You are not entitled to the personal allowance if you have income of more than £123,000. Non-domiciled individuals who elect to be taxed on the remittance basis are not entitled to the annual exemption for CGT. If you don't use all your personal allowance or annual exemption in the tax year, you can't carry the unused amount into another tax year or allocate it to another person.

Personal reliefs

Tax-free assets

Some types of assets are not subject to CGT when you dispose of them. These include:

- moveable possessions worth no more than £6,000
- motorcars of any value
- government stock (gilts) and savings certificates
- currency for personal use
- debts and most corporate bonds.

Your own home

When you sell the property you have occupied as your main home for the entire period of your ownership, the gain is completely free of CGT. If you lived in the property for only part of that time, the proportion of the gain relating to your period of occupation is exempt from CGT and the gain for the last 18 months is also exempt.

When you have two or more properties, you

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need to notify HMRC which property should be treated as your main home for CGT purposes. Married couples or civil partners can only have one main home between them.

There are additional reliefs from CGT for periods when you let your home, when you need to live elsewhere for your job or if you move into a care home. Selling part of your garden can also be tax-free if it is sold before or with the house.

Ask us to check whether the sale of your home will be tax free.

Gifts

Any assets you give to charity or to a community amateur sports club are free of CGT.

There is a general exemption from CGT for gifts between husband and wife or civil partners who are living together in that tax year, but not for gifts to other relatives. For example, if you give a house to your son, you are taxed as if you had sold the property at its market value.

Reinvesting and deferring

If you are prepared to take some risk with your investments, you can defer paying CGT on gains by investing the amount of the gain in shares issued under the Enterprise Investment Scheme or shares or bonds issued under the Social Investment Tax relief scheme.

Investing your gain under the Seed Enterprise Investment Scheme (SEIS) will halve the amount of tax your pay on that gain, but you can only invest up to £100,000 per year in SEIS.

Losses and negligible value

Sometimes an investment will make a loss when you sell it. That capital loss can be useful as it can be set against the capital gains you make in the same tax year or be carried forward. You need to claim the loss on your tax return so it can be used in this way.

When you own assets or shares which become worthless while you own them, perhaps because the company has ceased trading, you can claim that capital loss as if you had disposed of the assets or shares.

Losses can be valuable so don't ignore them.

Business reliefs

Roll-over relief

Businesses need to replace their assets without worrying about the tax payable on the gain. Where the full gain is reinvested in a new asset (within certain categories) which is used for the business, the gain will be rolled over into the value of that new asset. In that case CGT is only paid on the sale of the replacement asset, if that is not also replaced.

Hold-over relief

If you give a business asset or shares in your company to an individual, the gain can be held over so you don't pay CGT. The recipient of the asset or shares will pay CGT on the gain they make when selling the gifted assets, as if they had owned those assets from the time you acquired them.

Incorporation relief

When you transfer your unincorporated business to a company, you would normally pay CGT on the gain made on any chargeable assets. But if you receive shares in return you can roll over the gain into the value of those shares. This defers the CGT payable until you sell those shares.

Entrepreneurs' relief

This relief reduces the rate of CGT payable to 10% on up to £10 million of qualifying gains made during your lifetime. Those gains must arise from the disposal of:

- shares or bonds in your personal company
- all or a significant part of your unincorporated business
- an asset used by your business or by your personal company when the disposal is made in association with the disposal of at least 5% of the business or company.

There are additional requirements to meet for each of those disposals. For example, you need to hold at least 5% of the ordinary share capital of your company and be a director, company secretary or employee of that company for at least 12 months to the date of disposal.

Investors' relief

You can also enjoy the 10% rate of CGT when investing in an unquoted company which you do not work for. You need to have subscribed for the shares after 16 March 2016 and hold them for at least three years, disposing of them after 5 April 2019. There are strict rules as to your involvement in the company while you hold the shares, but up to £10 million of gains can qualify for this relief.

We can help you claim CGT reliefs.