

## ***CAPITAL GAINS TAX – AN INTRODUCTION***

Capital Gains Tax, CGT, is levied in individuals, including sole traders and partners, on Capital Gains. Many of the CGT rules also apply to Companies for the purpose of calculating a gain chargeable to Corporation Tax.

### What is Capital Gains Tax charged on?

CGT is chargeable on potentially any asset which you sell – or give away to a connected party – in particular:

Houses  
Commercial property  
Land  
Investments  
Company shares  
Boats  
Collections and artwork

### How is it worked out?

Generally speaking the calculation is sale proceeds less original purchase price, less costs of disposal (eg legal fees), less any enhancement expenditure (eg improvements, other than repairs already expensed). Eg buy something for £10,000, sell it for £25,000, CGT payable on £15,000

### Are there any exemptions or reliefs?

Yes, a number:

- An annual exemption of £9,600 (2008/09)
- Private residence exemption for your home (see below)
- Indexation allowance (companies only)
- Chattels (personal assets) disposed off for less than £6,000
- Reinvestment relief (also know as rollover relief) for the disposal of business assets (any gain on the sale of a business asset, eg premises, is rolled over if the entire sale proceeds of the first asset are reinvested in the purchase of a second asset).
- Reinvestment of a gain in EIS (Enterprise Investment Scheme) or VCT (Venture Capital Trust) (individuals only)

### Your home

Generally your home is exempt from CGT, including its garden.

If you have two homes then one can be nominated as exempt from CGT, and the other is chargeable.

Special rules apply where your home is used for business purposes, eg as a guest house, or if it is let in whole or part. NB claiming costs for working from home / running a small business from home, a so called use of home as office claim, doesn't normally give rise to a CGT liability.

## Taper relief

Taper relief is a percentage exemption from tax. It applied to individuals, including sole traders and partnerships, not companies, on gains realised before 5 April 2008. On gains realised after that date no taper relief is given.

The rates differ between business assets and non business assets. Business assets are broadly:

- any asset used in your business
- any asset used in another business (eg if you own a commercial property as an investment and let it to a small company)
- shares in an unlisted company (NB Aim shares count as unlisted)

Number of complete years asset held after 5.4.98 (including 'bonus' where relevant)	Non-business taper %	Business taper %
1	0	0
2	0	50
3	5	75
4	10	75
5	15	75
6	20	75
7	25	75
8	30	75
9	35	75
10 or more	40	75

It can be seen the business rates are very generous – 75% after only two years.

A bonus year is given for non business assets only, held before 17 March 1998.

## CGT rates

2007/08 and earlier years - CGT is added to a persons other income and subject to tax at 20% or 40% dependant on whether they are a basic or higher rate tax payer. For 2005-06 Higher Rate tax cuts in at £32,400. So if an individual had income, eg from employment, of £20,000 and a capital gain of £50,000, then £12,400 of the Capital Gain would be taxed at 20%, the balance at 40%

2008/09 and later years – tax is generally charged at a flat rate of 18% on the gain after exemptions, including the £9,600 annual exemption. The exception is the first £1m of lifetime cumulative gains from disposing of either (i) a business or (ii) assets used in a business as part of the process of selling a business – in these circumstances so called Entrepreneurs Relief applies and the first £1m is charged at 10% rather than 18%.

Example

Example of a Capital Gains tax computation

Sale of a investment property (eg buy to let) post April 2008.

	£
Proceeds	250,000
Original cost	(100,000)
Improvements - kitchen	(8,000)
Improvements - roof	(5,000)
Legal costs on sale	(650)
Estate agents fee on sale	<u>(5,000)</u>
Capital Gain	131,350
Exemption (2008/09)	<u>(9,600)</u>
Taxable	<u><u>121,750</u></u>
Tax at 18%	<u><u>21,915</u></u>

Updated: April 2008

© Garbetts Limited