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SPOTLIGHT ON:

Navigating capital gains tax

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CAPITAL GAINS TAX EXPLAINED

Capital gains tax (CGT) is the tax on the profit you make when you sell or 'dispose of' an asset that has increased in value during your ownership. It is important to note that the tax is levied only on the gain made from the sale, not the total sale price.

CGT is important whether you're selling property, shares or valuable personal items, as each type of asset has different rules and rates. For example, selling a second home or investment property can attract a higher rate of CGT than other assets. Certain allowances and exemptions can also make a big difference to the amount of tax you pay.

This guide will examine CGT in-depth, covering everything from how it is calculated to the allowances, exemptions, and reliefs available. By understanding these subtleties, you can plan better, be tax-compliant, and potentially save a lot of money.

AN OVERVIEW OF CAPITAL GAINS TAX

CGT is typically payable when you sell or dispose of an asset for more than you purchased it for. The tax is levied on the profit (gain) made from the sale, not the total sale price. For instance, if you purchase artwork for £10,000 and sell it for £50,000, CGT is calculated based on the £40,000 gain, not the full £50,000.

Disposal includes selling the asset, giving it away as a gift, transferring it, exchanging it, or receiving compensation for it, such as an insurance payout. Understanding what constitutes a disposal is essential to ensure compliance with CGT regulations.

CURRENT CGT ALLOWANCES

You only pay CGT on gains exceeding your Annual Exempt Amount (AEA). For the 2024/25 tax year, this threshold is set at £3,000. This means that if your total gains within a tax year are below £3,000, you won't have to pay CGT. This threshold was reduced from £6,000 in April 2024, making it more likely that individuals will incur CGT on their gains.

It's also worth noting that these allowances are not transferable between spouses or civil partners. Each individual has their own allowance, and any unused allowance cannot be carried forward to future tax years. However, assets can be transferred between spouses/civil partners with no CGT implications, thus allowing a couple to utilise one another's allowances.





CGT RATES

The rate of CGT you pay depends on your overall taxable income and the type of asset sold. Here's a detailed look at how the rates apply:

- **Basic Rate Taxpayers:** If your annual income is under £50,270, you will pay 10% on most gains and 18% on gains from residential property.
- **Higher Rate Taxpayers:** If your annual income exceeds £50,270, the rates increase to 20% on most gains and 24% on gains from residential property.

The rates are structured to align with income tax bands, ensuring that those with higher incomes pay a higher rate on their capital gains. This progressive structure aims to provide a fair tax system where the wealthier contribute more.

ASSETS THAT FALL UNDER CGT

PERSONAL POSSESSIONS

Personal possessions such as artwork, jewellery, and antiques are subject to CGT if their value exceeds £6,000. Therefore, if you plan to sell a valuable heirloom or an art piece that has appreciated in value, it's crucial to consider the potential tax implications. However, some personal possessions are exempt from CGT, such as:

- **Cars:** Almost all cars are exempt from CGT, regardless of their value.
- **Wasting assets:** Items with a useful life of 50 years or less, such as certain machinery and equipment, are not subject to CGT as long as they are not used for business purposes.

Understanding which items are taxable and which are not can help you make informed decisions when selling personal possessions.

PROPERTY

CGT primarily applies to properties that are not your main home. This includes:

- **Second homes:** Properties used as holiday homes or secondary residences.
- **Rental properties:** Real estate held for rental income.
- **Business premises:** Properties used for business purposes.

Your primary residence is generally exempt from CGT due to Private Residence Relief (PRR). Jointly owned properties are taxed only on your share of the gain, so it's important to understand your ownership percentage.

SHARES

Share investments are usually subject to CGT when sold for a profit. However, shares held in tax-efficient accounts such as Individual Savings Accounts (ISAs) or Personal Equity Plans (PEPs) are exempt. Specific employee share schemes, like the Enterprise Management Incentive (EMI), also offer exemptions.

BUSINESS ASSETS

If you own a business, certain business assets are liable for CGT. This includes:

- **Machinery:** Equipment used in business operations.
- **Intellectual property:** Patents, trademarks, and other intangible assets.

When selling a business or restructuring, understanding the CGT implications is crucial for effective financial planning.





CGT EXEMPTIONS

MAIN RESIDENCE

Private Residence Relief (PRR) exempts your primary home from CGT. To qualify, the property must be your main residence for the entire period of ownership. However, there are specific rules and conditions:

- **Letting Relief:** If part of the property was let out, you might still qualify for partial relief.
- **Periods of absence:** Certain periods when you were not living in the home may be exempt, provided specific criteria are met.

GIFTS

Gifts to your spouse or civil partner and gifts to charities are exempt from CGT. This can be a strategic way to transfer assets without incurring tax liabilities.

TAX-EFFICIENT INVESTMENTS

Interest from ISAs, PEPs, and specific share sales are outside the scope of CGT. These tax-efficient investment vehicles can help grow your wealth without triggering CGT.

Investing in the Enterprise Investment Scheme (EIS), Seed Enterprise Investment Scheme (SEIS), and Venture Capital Trusts (VCTs) can also provide significant CGT exemptions. These schemes offer attractive tax reliefs, including the potential for CGT exemption on gains from investments held for a specified period, making them highly beneficial for investors looking to minimise their CGT liabilities.

CAPITAL LOSSES AND RELIEFS

If you incur a loss on the sale of an asset, you can offset this loss against any gains, reducing your overall CGT liability. Here are some key points to consider:

- **Claiming losses:** You must claim the loss in your tax return to offset it against gains.
- **Carry forward:** Unused losses can be carried forward to future tax years, providing flexibility in tax planning.

Professional advice can help ensure you maximise the benefit of these reliefs.

WHEN MUST CGT BE REPORTED AND PAID?

Reporting and paying CGT must be done by specific deadlines, which vary depending on the type of asset and the nature of the disposal. Adhering to these deadlines is crucial to avoid penalties and interest charges.





REPORTING AND PAYMENT DEADLINES FOR UK RESIDENTIAL PROPERTY

For disposals of UK residential property, the reporting and payment deadlines have been updated recently to ensure timely compliance. The key deadlines are:

- **For disposals completed on or after 27 October 2021:** You must report the sale and pay any CGT due within 60 days of the completion date. This applies to the sale, gift, or transfer of the property.
- **For disposals completed between 6 April 2020 and 26 October 2021:** The reporting and payment deadline was 30 days from completion.

These tighter deadlines aim to ensure that tax liabilities are settled promptly and reduce the risk of non-compliance.

REPORTING AND PAYMENT DEADLINES FOR OTHER ASSETS

For other types of assets, such as shares, personal possessions, and business assets, the CGT reporting and payment process is slightly different:

- **Self assessment tax return:** If you are already filing a self assessment tax return, you should include your CGT calculations in your annual return. The deadline for submitting your self assessment tax return online is 31 January, following the end of the tax year in which the disposal occurred. If you file a paper return, the deadline is 31 October of the same year.
- **Real-time capital gains tax service:** HMRC offers a 'real-time' CGT service for more immediate reporting. This allows you to report gains and pay any CGT due before the end of the tax year, providing a convenient option for those who prefer not to wait until their annual tax return.

REPORTING USING THE 'REAL-TIME' CAPITAL GAINS TAX SERVICE

The 'real-time' Capital Gains Tax service allows individuals to report and pay CGT liabilities promptly. This service is particularly useful for those who prefer not to wait until the end of the tax year to include their CGT calculations in their self assessment tax return. By using the real-time service, you can ensure that your CGT obligations are met efficiently, reducing the risk of penalties and interest charges for late payment. This service also simplifies the process, allowing for immediate reporting and payment, which can be advantageous in managing your tax affairs effectively.

THE IMPORTANCE OF TIMELY REPORTING

Failing to report and pay CGT on time can result in significant penalties and interest. HMRC imposes these penalties to encourage timely compliance and accurate reporting. For instance, if you miss the 60-day deadline for a residential property sale, you could face initial penalties and daily charges until the tax is paid.

NON-RESIDENTS AND CGT REPORTING

Non-residents disposing of UK property must also comply with reporting requirements, regardless of whether they owe any CGT. If selling residential property, they must report the disposal within the same 60-day window. For other types of assets, the general rules for CGT reporting and self assessment apply.

By understanding these deadlines and methods, you can ensure compliance with CGT regulations, avoid penalties, and manage your tax liabilities efficiently.

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HOW ACCOUNTANTS CAN ASSIST WITH CAPITAL GAINS TAX

CGT can be daunting, but professional accountants can provide invaluable assistance in managing and mitigating your CGT liability. Here are some key ways accountants can help:

Accurate calculation of gains:

Accountants ensure precise calculation of capital gains by identifying deductible expenses and applying all available reliefs and allowances. This minimises your taxable gain and maximises the benefits of tax exemptions.

Strategic tax planning: Professional accountants offer strategic advice on the timing of asset sales to maximise tax allowances and offset losses against gains. They also help utilise specific reliefs like Entrepreneurs' Relief to reduce CGT rates on qualifying business assets.

Compliance and reporting:

Accountants ensure compliance with HMRC regulations by preparing and submitting accurate tax returns and reports. They help maintain comprehensive records, meet all reporting deadlines, and avoid penalties and interest charges.

Advice on complex transactions:

For complex transactions such as business asset sales, mixed-use properties, and jointly held assets, accountants provide expert guidance on accurately calculating CGT liability and applying for relevant reliefs.

Estate planning and inheritance:

In estate planning, accountants develop strategies to minimise CGT on inherited assets. They advise on gifting strategies and using trusts to reduce tax liabilities for heirs.

Ongoing support and advice: Accountants provide ongoing support by keeping up with changes in tax legislation and offering proactive advice to adjust strategies and minimise future CGT liabilities. Professional accountants play a crucial role in managing capital gains tax efficiently. Their expertise in tax planning, compliance, and strategic advice helps optimise financial outcomes and ensure full compliance with tax regulations. For personalised CGT assistance, contact us; our expert team is dedicated to helping you achieve your financial goals while managing your tax obligations effectively.



Talk to us about your tax liabilities.



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