McCleary & Company Ltd.
Chartered Accountants & Registered Auditors

# Capital gains tax planning

A guide to capital gains tax and allowances for 2016/17.

Selling something you own for more than you originally bought it for is the basis of doing 'good business' in terms of both personal and business finance.

Depending on the profit that an individual or organisation makes on the sale of their asset, they may become liable to pay capital gains tax (CGT).

There have been a number of changes introduced to CGT and its allowances and reliefs for the 2016/17 tax year.

Individuals and businesses who may be planning on selling assets in the near future should be aware of what their CGT liability is likely to be.

## The basics

CGT is applied on the profit (or 'gain') that may occur when an asset is sold (or 'disposed of') after it has increased in value.

CGT is applied to the gain, not the total amount of money that the buyer gives you as part of the sales process.

For example, you buy an antique table for £7,500 and sell it for £18,000. Your gain here is £10,500.

## Rates

Budget 2016 saw significant cuts to the main rates of CGT. As of April 2016, the rates for CGT are:

- basic rate taxpayers: 10% (from 18%)
- higher rate taxpayers: 20% (from 28%).

Disposals of residential property that does not qualify for private residence relief and carried interest are taxed at the previous rates.

You pay CGT at the higher rate on the portion of any gains that exceed the basic rate threshold.

## Annual exempt amount

Every individual is entitled to a tax-free allowance, which means that they are not entitled to pay CGT on their overall gains for that year if they fall under £11,100 (£5,550 for trusts).

Contact us today to talk about your assets.

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# Capital gains tax planning

## CGT planning

Any person or organisation that is planning on making a profit from the sale of their assets needs to understand the kinds of gains that are taxed and the strategies for reducing CGT.

As well as the annual exempt amount, there are a number of different aspects to CGT planning.

## Tax-free gains

The foundation of CGT planning is making sure that the gains you have made are actually liable for CGT in the first place.

**Gifts**

There is no requirement to pay CGT on assets that are given or sold to your spouse or civil partner. The exceptions are if you are separated and didn't live together during the tax year in question or the assets were gifted to a business in order to be sold on.

Spouses and civil partners may have to pay CGT if they dispose of the asset later.

Similarly, CGT is not liable on assets gifted to charities. If, on the other hand, you sell an asset to a charity for more than you paid for it or less than market value, you may have to pay CGT.

**Other tax-free assets**

As well as certain kinds of gifts, there are a number of different kinds of assets that are exempt from CGT.

You don't have to pay tax on gains made from the following:

- most personal possessions worth less than £6,000
- UK government gilts and premium bonds
- ISAs and personal equity plans
- lottery and betting winnings.

If you inherit an asset, you may need to pay CGT if you later dispose of it, whereby the normal rules apply.

Whether or not you are liable to pay CGT on gains made on assets that are located overseas will depend on your status under the residence and domicile rules. This area of law can quickly become complex and it is recommended that you seek professional help if you are unsure of your current status.

Our expert team can help you work out your CGT liability.

## Trusts

Trusts are a key way in which people manage assets and pass on wealth to family members. While creating a trust is an important part of inheritance tax planning, how they interact with CGT liability is worth considering.

A trust is generally made up of 3 distinct roles:

- the settlor who places the assets into the trust
- the trustee who manages the trust
- the beneficiary who benefits from the trust.

Responsibility for paying CGT on the gains in question will depend on whether an asset is being transferred in or out of a trust. In most cases the liability for CGT on assets taken out of trust is placed on the trustees, although there are a number of exceptions to this rule. For example, if the trust is a bare trust, the liability lies with the relevant beneficiaries.

There are a multitude of caveats and technical details to how CGT works with regards to trusts so the above information should be treated as a basic overview.

We can help you set up a trust.

## Reliefs

There are a number of CGT related reliefs which can be used to lower your liability.

They include:

**Private residence relief**

This relief applies to individuals who are disposing of their only or main residence (both land and property). There are restrictions on non-UK residents and UK residents claiming relief on properties located abroad. There are other criteria to meet in order to qualify for this relief.

**Entrepreneurs' relief**

Individuals who are disposing of part or all of their business may be able to use this relief and pay CGT at 10% on qualifying assets. Eligibility extends to soles traders, partnerships and those with at least 5% of a business' shares and voting rights. There are various other rules to meet depending on what you are selling.

**Gift hold-over relief**

Individuals may be able to claim gift hold-over relief if they are gifting business assets (including shares) or selling them for less than they are worth.

We can advise you on CGT reliefs.

## Losses

Of course, it is possible to make a loss on the disposal of assets. If these losses occur on the sale of taxable assets, they can be used to reduce your total taxable gains and lower your CGT bill.

The term for losses used in this way is allowable losses.

If your total taxable gain is above the annual exempt amount, you can use any losses you have to take your total below the allowance. If you have any losses remaining after you drop below the exemption threshold they can be carried forward to a future tax year.

You cannot claim losses on assets given to spouses, civil partners, family members and other 'connected people' unless you are offsetting a gain from the same person.

You have up to 4 years after the end of the tax year in which they occurred to report a capital loss to HMRC. CGT planning should be a central concern of anyone who is considering disposing of some of their assets or their business' assets. We can help you make sure that you get the best results.

Contact us to discuss any aspect of CGT planning.