Quilter

Technical Insights – Capital Gains Tax overview

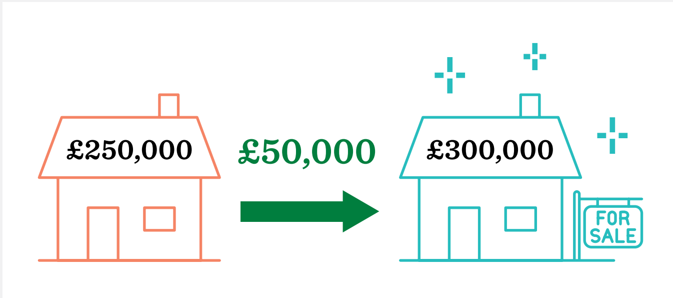
Quick reference guide 1 – an introduction to Capital Gains Tax (CGT)

This guide will provide a high level summary of CGT, when it applies, on what types of assets and at what rates. Quick Reference Guides 2 – Section 104 Holdings & 3 – Share Identification Rules, provide more details about how CGT applies to stocks & shares (including collectives/funds).

CGT is a tax on profit

When you sell, give away or exchange ('dispose of') something that's increased in value, CGT looks to tax the profit made (the value above that paid) not the amount of money received.

For example, if a second property is purchased for £250,000 and sold for £300,000, there is a gain of £50,000.



Expenditure is deducted from the proceeds to arrive at the taxable gain (or loss)

Expenditure, in addition to the price paid, which is considered 'allowable' can be deducted but is restricted to:

- Costs for acquiring or creating the asset;
- Costs for enhancing its value;
- Costs for establishing, preserving or defending title to or rights over the asset; and
- Incidental costs of acquisition and disposal.

The most common costs beyond the purchase price will include stamp duty (land tax and reserve tax for shares), agent fees (Estate Agents/Solicitors), valuation fees and the cost of extending (enhancing) the property. This is list should not be considered exhaustive.

So using our example above, if costs of purchase include £250,000 purchase price plus stamp duty of £7,500 and £2,500 legal and valuation fees. The total allowable cost to deduct from the £300,000 sale proceeds is £260,000. This reduces the taxable gain to £40,000.

The purchase price of shares is calculated slightly differently. Shares of the same class are pooled to provide an average price paid for each share in the 'pool'. ***Quick Reference Guide 2 - Section 104 Holdings*** explains this in more detail.

For financial advisers only

CGT is payable at different rates dependent on the income levels of the taxable person

Each individual receives an Annual Exempt Amount to allocate against gains made in a tax year. For the current tax year this is £3,000*. This Annual Exempt Amount can be used in the most tax efficient way. In 2024/25 tax year this means you can allocate against gains chargeable at a higher rate reducing the tax liability for the year. The same principle applies with allocation of losses (see below for more information). Again, using the gain from the above example, the £40,000 gain is reduced to £37,000 prior to applying a rate of CGT.

The following rates of CGT apply

	Basic rate taxpayer	Higher & additional rate taxpayers (trust rate)
Disposals prior to 30 October 2024	10% (18% on property gains)	20% (24% on property gains)
Disposals on or after 30 October 2024	18%	24%

To establish the rate payable, the gain is added on top of someone's income for the respective tax year. If the gain straddles tax bands, part is taxable at the basic rate and part the higher.

Using our example for someone with income of £45,000 (basic rate taxpayer). Gain after Annual Exempt Amount £37,000 which is added on top of all income:

£5,270 is within the remaining basic rate band so taxable at 18%

£31,730 is taxable at the higher rate of 24%

Total CGT on the property gain = £8,563

** Trusts receive half of the Annual Exempt Amount, £1,500. Where multiple trusts are created by the same person, this amount is split between the trust with a minimum of £300 per trust.*

Not all types of assets are liable to CGT

The types of assets liable to CGT include:

- a second property or buy-to-let
- shares and funds
- the sale of a business
- valuable possessions if they're sold for more than £3,000.

The most common assets which are exempt include:

- main residence
- private motor cars
- prizes and betting winnings
- cash
- shares and funds held in an ISA or pension

These lists are not exhaustive.

It isn't just selling an asset that is classed as a disposal

Although most gains (or losses, see below) will be realised when an asset is sold, there are instances where there is a disposal for CGT purposes even though no money changes hands. The most common scenarios include gifts (except to a spouse/civil partner) and transfers into and out of trust.

For example, if some shares are transferred (gifted) to a bare trust for a minor. The donor (person making the gift) is deemed to have disposed of the shares at market value (the price someone would pay on the open market), realising any gain (or loss) at the date of transfer. The recipient, the trustees of the bare trust, are then assessed for gains (losses) from this market value going forward. If the shares are later transferred to the bare beneficiary there is no change to the beneficial owner (the person entitled to benefit) therefore there is no subsequent disposal on this transfer.

As described above, should the gift be between spouses/civil partners, the transfer is considered a no gain/no loss transaction. In this scenario any gain (or loss) is carried over to the recipient i.e. the recipient receives at the original acquisition cost.

Finally, for shares and collective investments, there is also the misconception that sales to pay advice fees and product charges do not count as disposals. This is incorrect. These are not costs associated with the acquisition or disposal of the shares and are not considered allowable expenditure.

Losses can be offset to reduce gains

If an asset is disposed of and after deducting allowable expenses a loss is made, this must be set against other gains in the same tax year. This is the case even if gains are within the Annual Exempt Amount.

If, after offsetting losses, there is a net loss during the year, these can be registered with HMRC and can be carried forward indefinitely and used in a future tax year(s). Losses can be offset in the most beneficial way. This means that losses could be offset against gains on or after 30 October 2024 to avoid CGT at the increased rates.

If we use our example from above of a £37,000 gain after the deduction of expenses and the Annual Exempt Amount. If we had, in the same tax year, made a loss of £5,000 on a share portfolio this must be offset. This would reduce the taxable gain further to £32,000. This would reduce the CGT bill in this example by £1,200 (£5,000 @ 24%). Both gains and losses are disclosed via self-assessment or if made on UK residential property via the 'real time' Capital Gains Tax service within 60 days of completion.

The information provided in this article is not intended to offer advice.

It is based on Quilter's interpretation of the relevant law and is correct at the time of writing. While we believe this interpretation to be correct, we cannot guarantee it. Quilter cannot accept and responsibility for any action taken or refrained from being taken as a result of the information contained in this article.

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