

The CGT annual exemption – use it or lose it!

Capital gains tax (CGT) is normally paid when an item is either sold or given away. It is usually paid on profits made by selling various types of assets including properties (but generally not a main residence), stocks and shares, paintings, and other works of art, but it may also be payable in certain circumstances when a gift is made.

Some assets are exempt from CGT, including assets held in an Individual Savings Account (ISA), betting, lottery, or pools winnings, cash held in sterling, jewellery, antiques, and other personal effects that are individually worth £6,000 or less.

The most common method for minimising a liability to capital gains tax is to ensure that the annual exemption is fully utilised wherever possible. Whilst this is relatively straight-forward where only capital gains are in question, the computation can be slightly more complex where capital losses are also involved.

Most people are entitled to an annual CGT exemption, which means that no CGT is payable on gains up to that amount each year. For 2018/19, the limit is £11,700 and it will rise to £12,000 in 2019/20.

Eligible individuals each have their own exemption, so for jointly owned assets, there is scope for spouses and civil partners to exempt £23,400 worth of gains in 2018/19, rising to £24,000 in 2019/20.

However, the annual exemption is good only for the current tax year – you can't carry it forwards or backwards - so if it isn't used in a particular tax year, it will be lost. If you are planning to make a series of disposals, for example disposing of a portfolio of shares, you may want to consider the timing of sales between two or more tax years to use up as much and as many annual exemptions as possible.

Moving gains

Although inter-spouse/civil partner transfers are not technically exempt from CGT, the mechanics of computation are such that no CGT charge arises on such transfers. This treatment requires the spouses/civil partners to be married and living together. It should also be noted that if the spouse or partner later sells the asset, they may have to pay CGT at that time.

Example

Grace, a higher rate taxpayer, disposes of 500 shares in ABC plc in 2018/19 making a capital gain of £30,000. After deducting the annual exemption (£11,700), her chargeable gain is £18,300. As Grace is a higher rate taxpayer, she will pay CGT at the 20% rate, and £3,660 will be payable on the gain.

If prior to sale, Grace transferred half of the shares to her spouse Bob, a basic rate taxpayer, the capital gains tax situation would be significantly different. Both Grace and Bob will be able to use their annual CGT exemptions. They will each have a chargeable gain of £3,300 (after the annual exemption). Since Bob is a basic rate taxpayer, subject to his taxable income and chargeable gain being below the basic rate band, he will pay CGT at 10%.

Capital gains tax on the sale of the shares would be charged as follows:

Grace: Chargeable gain of £3,300 at 20% = £660

Bob: Chargeable gain of £3,300 at 10% = £330

Total CGT payable £990

Transferring half the shares to Bob potentially saves tax of £2,670.

Whilst it is permissible to organise your financial affairs in such a way as to minimise tax payable, strict anti-avoidance rules do exist. Seeking professional advice is always strongly recommended prior to undertaking any transactions of this nature.