

Using the capital gains tax exempt amount

As the end of the 2016/17 tax year draws to a close, it may be worth taking stock of your capital gains tax position and accelerating any disposals likely to generate a gain where the 2016/17 annual exempt amount remains available.

The exempt amount

All individuals are entitled to an annual exempt amount for capital gains tax purposes. Capital gains tax is only payable if net gains for the year exceed the annual exempt amount. It is important to note that the allowance is set against 'net gains' – this is gains for the year, less losses for the year. It is not possible to set the annual exempt amount against gains only and carry forward any losses. However, brought forward losses do not need to be taken into account before applying the exempt amount.

The capital gains tax annual exempt amount for 2016/17 is £11,100. Trustees also have an exempt amount of half that available to individuals - £5,550 for 2016/17.

Example

In 2016/17, Peter realises gains of £20,000 and losses of £4,000. His net gains (gains less losses) are £16,000. The annual exempt amount of £11,100 is set against the net gains of £16,000, leaving gains of £4,900 liable to capital gains tax.

Use it or lose it

The annual exempt is available only for the tax year to which it relates. If it is not used, it is lost – it cannot be carried forward.

A question of timing

If you are planning a disposal that will give rise to a capital gain and your annual exempt amount for 2016/17 is unused, you may want to make the disposal before 6 April 2017 to utilise the 2016/17 annual exempt amount, leaving the 2017/18 annual exempt amount available for gains made after 5 April 2017 and before 6 April 2018.

Example

Jack has some shares to sell that would realise a gain of £20,000. He disposes of sufficient shares to trigger a gain of £11,100 before 6 April 2017 (so that the gain falls in the 2016/17 tax year). His annual exempt amount is available and this shelters the 2016/17 gain. The remaining shares are sold after 5 April 2017 (in the 2017/18 tax year) and the resulting gain is set against the annual exempt amount for 2017/18. By carefully timing the disposal to make best use of the annual exempt amounts, the whole gain is tax-free.

Spouses and civil partners – further opportunities

Spouses and civil partners are able to transfer assets between them at a value which gives rise to neither a gain nor a loss. This opens up options for ensuring the annual exempt amount of either spouse or civil partner is not wasted.

Example

Kevin wishes to sell a painting that will realise a gain of £10,000 in order to buy a car for his daughter. He has already used up his annual exempt amount for 2016/17. However, his wife Gill has not made any disposals and her full annual exempt amount remains available. By transferring the painting to Gill (on a no gain/no loss basis) before selling it to a third party, it is possible to realise the gain tax-free. The gain is sheltered by Gill's annual exempt amount.

Likewise, where both annual exempt amounts are available, it may be beneficial to transfer an asset to joint names prior to disposal.