A quick overview of capital gains tax

Capital gains tax is payable on net gains to the extent that they exceed the annual exempt amount.

Capital gains tax is a tax on the profit that is made on the disposal of an asset. Normally, this will apply when an asset is sold, but a taxable gain may also arise when an asset is given away as a gift or exchanged for something else. A tax charge may also arise if compensation, such as an insurance payout, is received when the asset is destroyed. Exemptions and reliefs may be available.

Chargeable assets

Capital gains tax is only payable if the asset in question is a chargeable asset. Chargeable assets include personal possessions which are worth more than £6,000, any property which is not your main home, shares (other than those held in a tax-free scheme or investment), and business assets.

Allowable costs

In working out the chargeable gain, you deduct any allowable costs. These include not only the cost of buying the asset in the first place but also any incidental costs of buying and selling, such as advertising, commission, etc., and anything spent on the asset to enhance its value.

Losses

Losses are worked out in the same way as gains. Losses and gains arising in the same tax year are set against each other to arrive at the net gain for the year. Where there is a net loss, this can be carried forward and set against future gains.

Annual exempt amount

All individuals are entitled to an annual exempt amount. For 2017/18, this is set at £11,300 for 2017/18. For 2016/17, the figure was £11,100.

The annual exempt amount is set against net gains for the year (gains less losses). Any brought forward losses can be used to shelter any gain remaining once the annual exemption has been applied.

If the annual exempt amount is not used in the tax year in question, it is lost – unused amounts cannot be carried forward.

Rates

For 2017/18, capital gains tax is payable at the rate of 10% to the extent that total taxable income and gains do not exceed the basic rate band of £33,500, and at 18% where the income and gains exceed this limit. Higher rates of, respectively, 18% and 28%, apply to gains on property (where not exempt) and to carried interest.

Spouses

Transfers between spouses and civil partners are deemed to be at a value that gives rise to neither gain nor a loss. This means it is possible to transfer assets between spouses and civil partners tax-free prior to a disposal to a third party, to take advantage of an unutilised annual exempt amount.

The capital gains tax rules can be complex. It is advisable that professional advice is sought, ideally before making the disposal.