Guide to Capital Gains Tax

CLARITY FOR LIFE

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Asset Management

Introduction

You may have seen the changes proposed to capital gains tax (CGT) as part of the Governments autumn statement in November 2022. The changes mean that the annual capital gains exempt amount will significantly reduce over the coming years, resulting in more people having a potential tax liability on the disposal of assets. The below provides a high level explanation of what CGT is and how the changes will potentially affect individuals and trusts. It is designed for information purposes only and we strongly advise that you speak to your adviser to understand the implications to you based on your specific circumstances.

WHAT IS CAPITAL GAINS TAX (CGT)?

CGT may be payable on gains (profit) made from the disposal of certain assets. Gains are deemed to be any increase in value between the original purchase cost and the disposal proceeds. Certain costs directly incurred in the purchasing and disposal, of assets subject to CGT, can be deducted. This includes legal fees, estate agent fees, stockbroker fees and accountant fees but doesn't include any fees payable for financial advice.

For example, if you originally invested £100,000 into an investment account and your investment was worth £110,000 (no deductible costs applicable) at the point of full disposal, only £10,000 would be treated as the gain for the purposes of CGT as shown below.

If the gain, is greater than the CGT annual exempt amount (AEA), there will be tax to pay. If the gain is lower than the AEA, there will be no tax to pay if the gains from all asset disposals in the tax year, when combined, are below the AEA.

WHAT IS A DISPOSAL?

In summary a disposal for CGT purposes typically happens when the ownership of an asset comes to an end. This is often when assets are sold, but also when assets are gifted outright or into trust.

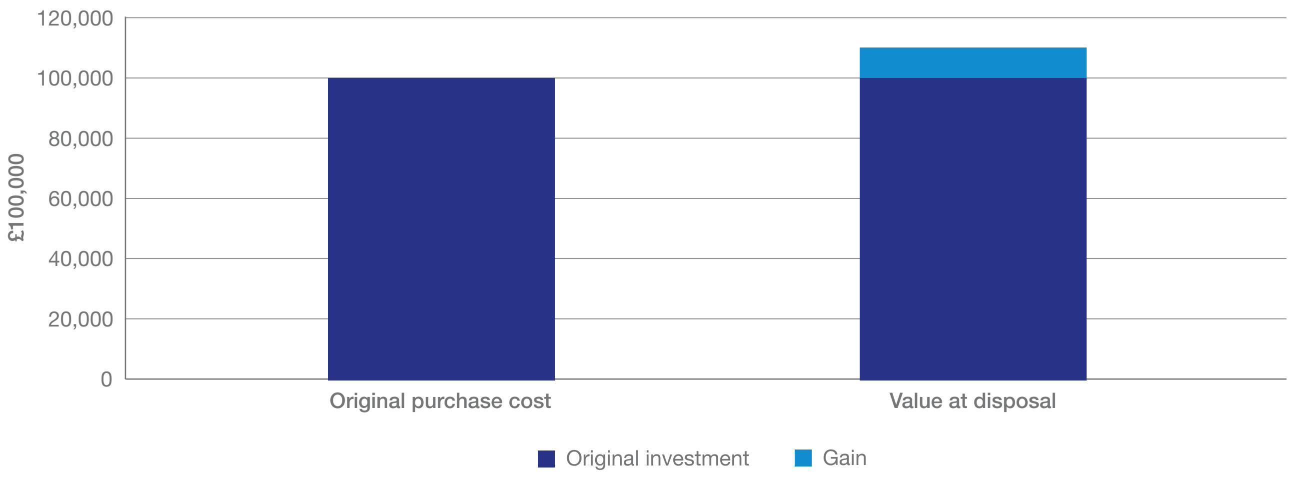
At point of disposal the CGT calculation is based on the gain as shown below.

However, some disposals are considered exempt from CGT. Examples of exempt disposals are:

- Gifts between spouses*
- Gifts to charity
- Disposal on death

*Gifts made to other family members are treated as a disposal with specific rules regarding the valuation of the gift for the calculation of CGT.

ORIGINAL INVESTMENT vs. GAIN



WHICH ASSETS ARE LIABLE TO AND EXEMPT FROM CGT?

Ordinarily CGT is payable on the profit you make on the disposal of assets. However, not all assets are liable to CGT. Some of the common types of assets liable to and free from CGT are shown in the table below:

Investment Type	Subject to CGT on Gains
OEIC/Unit trusts	✓
Property (not your main residency)	✓
Shares	✓
Business assets	✓
Onshore and offshore investment bonds	✗
ISAs	✗
Pensions	✗
EIS and VCT	✗
Main residency	✗

WHAT IS THE ANNUAL EXEMPT AMOUNT (AEA)?

The AEA is the maximum gain you can have in a tax year on which no tax is paid. Any gain balance from all sales in a tax year over the AEA are subject to CGT. The current AEA and planned changes to this are detailed in the table below:

Tax Year	AEA for Individuals	AEA for Trusts*
2022/23	£12,300	£6,150
2023/24	£6,000	£3,000
2024/2025 onwards	£3,000	£1,500

* This amount is shared if the settlor has created more than one trust. If more than five trusts have been set up, each trust will receive 1/5th of the maximum trust AEA.

The AEA for each tax year cannot be carried back or forward. If it's not used, in part or full during a tax year, the unused amount is lost.

For example, if you had a gain of £10,000 on disposal on an OEIC/Unit trust portfolio, the following table details the amount of that gain that may be subject to CGT and any applicable CGT due when accounting for the current and planned changes to the AEA over the next few years:

				Basic Rate Tax Payer	Higher Rate Tax Payer
Tax Year Gain Realised	**Gain**	**AEA**	**Net Gain = (Gain – AEA)**	**How much CGT will I have to pay? (Net Gain x 10%)**	**How much CGT will I have to pay? (Net Gain x 20%)**
2022/23	£10,000	£12,300	£0	£0 X 10% = **CGT £0**	£0 X 20% = **CGT £0**
2023/24	£10,000	£6,000	£4,000	£4,000 X 10% = **CGT £400**	£4,000 X 20% = **CGT £800**
2024/25 onwards	£10,000	£3,000	£7,000	£7,000 X 10% = **CGT £700**	£7,000 X 20% = **CGT £1,400**

Total gains over the AEA are added on top of all other income to determine the rate of tax which will apply. The examples used in the tables assume the gains over the AEA, once added to all other income result in the full gain remaining within either the basic rate tax threshold or the higher rate threshold. It is possible that part of the gain may fall within basic rate and part within higher rate income tax thresholds. This would mean part of the gain would be taxed at 10% and part taxed at 20%.

For trusts the whole gain is taxed at a flat rate of 20%. Using the same example £10,000 gain but applying Trust AEA and Trust CGT, the table below highlights both the amount of that gain that may be subject to CGT and any applicable CGT to be paid when accounting for the current and planned changes to the AEA over the next few years:

			Trusts	
Tax Year Gain Realised	**Gain**	**AEA**	**Net Gain = (Gain – AEA)**	**How much CGT will the trust pay? (Net Gain x 20%)**
2022/23	£10,000	£6,150	£3,850	£3,850 X 20% = **CGT £770**
2023/24	£10,000	£3,000	£7,000	£7,000 X 20% = **CGT £1,400**
2024/25 onwards	£10,000	£1,500	£8,500	£8,500 X 20% = **CGT £1,700**

Differing rates of CGT for both individuals and trusts may apply to net gains where the gain is realised on disposal of assets other than OEICs/Unit Trusts.

CAPITAL LOSSES

Disposal of an asset may create a capital loss if the asset value has fallen below the original amount at outset less any deductible costs. Should a capital loss be realised on disposal of an asset it must be offset against any capital gain in the same tax year. This offset takes place before any remaining gain can be covered by the AEA. In some instances this may mean the offset gain is zero and the AEA is unused for the tax year.

After offsetting any loss with any gain, should any excess loss remain it can be carried forward indefinitely, with the loss offset against gains in future tax years. When offsetting carried forward losses in future tax years you are only required to offset an amount up to the value of any gains in excess of the AEA.

SUMMARY

These changes will bring a lot more individuals and trusts into the CGT regime. Cumulative gains of sales made within investment accounts (through investment changes, fees, selling down to utilise ISA allowances) could result in a CGT liability in any one tax year. Having growth and gains within a portfolio is preferable to capital losses, and there will be many well founded reasons to realise gains and pay CGT when actioning a long term financial plan. Before proceeding with an asset disposal, you should take advice on such matters from a suitably qualified tax practitioner and discuss with your financial adviser.

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