Get the right mix for you

Personal Taxation

Learning Outcome 1.3

By the end of this learning outcome you will be able to demonstrate an understanding of the UK tax system as relevant to the needs and circumstances of individuals and trusts including Capital Gains Tax liability, rates, disposals, gains and losses, reliefs and exemptions, and Capital gains of trusts.

1.3.1 Introduction

Capital Gains Tax (CGT) is a tax on profits made on the disposal of assets, including property and shares.

1.3.2 Disposals

A disposal usually relates to the transfer of ownership of an asset from one person to another. The most basic example of this would be selling an item to another person.

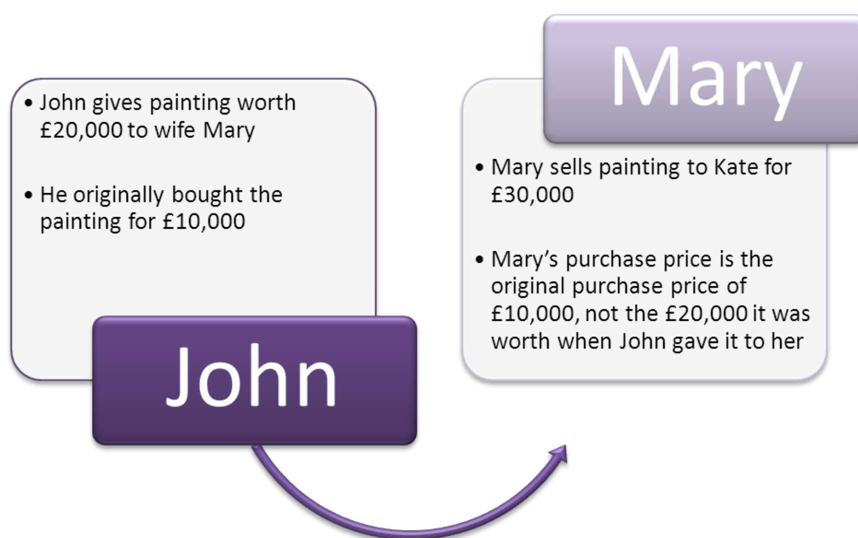
Main Types of Disposal
• Selling an asset • Giving away an asset (including gifts into trust) • Destroying an asset • Receiving money for giving away the rights of an asset e.g. selling an endowment policy where the original policyholder would no longer benefit on the death of the life assured

1.3.3 Exempt Disposals between spouses / civil partners

Transfers of assets between spouses or registered civil partnerships are exempt from CGT, providing the couple are living together at some stage during the tax year.

When the asset changes hands, its value will be what it was when the original partner bought it.

If the second partner later sells the asset their purchase price is deemed to be the original purchase price, not what it was worth when they received it.



Note: John will have made a gift for inheritance tax purposes, of the difference between the market value and the sale price (but usually exempt from inheritance tax).

This is an effective tax planning tool where one partner has not used their annual exemption and the other has, or where one partner is a higher or additional rate taxpayer and the other either a non or basic rate taxpayer.

Where assets are held jointly, each partner is taxed on the gain in accordance with their share of the asset.

Unless HMRC are told otherwise, they will assume the asset is owned 50:50.

1.3.4 Valuation of Assets for Capital Gains Tax

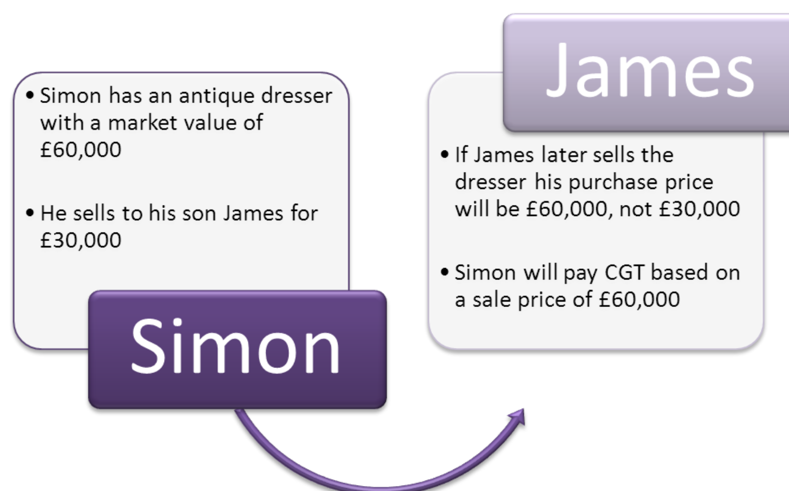
When a sale is made on a fully commercial basis, the person selling the asset receives its market value. This is the value that is used for CGT purposes.

The date of disposal is taken as the date any contract for sale becomes binding. The CGT bill could arise before the seller actually receives the money from the sale.

1.3.4.1 Disposals 'Not at arms length'

Where a transaction does not take place on a fully commercial basis, or 'not at arms length', then it is the true market value that is used rather than the sale proceeds.

An example of a transaction which does not take place at arms length is where the sale takes place between people who have close connections, e.g. between families:



The market value may also be used between unconnected parties where it is clear that the transaction has been completed at a sale price deliberately below market value.

Note: Simon will have made a gift for Inheritance tax purposes of the difference between the market value and the sale price.

1.3.5 Deferred Consideration

Where an asset is sold but the money for it is not to be received until a later date, this is known as deferred consideration:

Deferred Consideration • Ascertainable Value	Deferred Consideration • Unascertainable Value
These are sales where a fixed, pre-determined amount is to be handed over at a future date. These are charged to CGT on the date of the sale being agreed. If the money from the sale is not received for whatever reason, HMRC will allow for the liability to be scrapped at a later date. If the money from the sale is not going to be received within 18 months from the date of the contract, HMRC will normally agree that payment of CGT can be made in instalments.	Here, an element of the sale price is not known at the time of the sale. An example of this could be a final payment for a business based on future profits. In these circumstances, the market value of the business at the time of the sale is agreed and this is the figure used to calculate the initial CGT bill. A further calculation is then made at the time of the final payment taking place. In the event of a loss, HMRC can treat it as if it occurred in the year the sale was agreed, rather than the year in which it was finally sold.

1.3.6 Capital Gains, Income Tax and Inheritance Tax

Where both income and CGT are due on the same asset, then the amount of income tax owed is deducted from the sale proceeds before CGT is charged.

CGT is not due on death. The IHT value on death is used as the purchase price for any future CGT calculations.

IHT can arise during lifetime where a gift is made that is a chargeable lifetime transfer (CLT). The most common example of a CLT is a gift into a discretionary trust.

When a gift is made into a discretionary trust, this is a disposal for CGT purposes and a CLT for IHT purposes.

Any CGT owed can be put on hold using holdover relief. Holdover relief means that the bill does not have to be paid until the gift leaves the trust.

The recipient of the gift once it leaves the trust is deemed to have received the asset at the original purchase price, rather than the value of the asset when it went into the trust.

If holdover relief is not claimed, any IHT charged against the CLT can be deducted from the disposal value of the asset, providing it is the donor who pays the IHT due.

1.3.6.1 Capital Gains Tax or Income Tax

If a person is deemed to be trading, then any gains they make will be subject to income tax rather than CGT.

In a similar way to identifying if a person is to be classed as self-employed or employed for income tax purposes, a set of indicators also exists to establish whether an individual is trading or not.

Income Tax or CGT?

- What is the asset in question? Does it yield an on-going income or does the owner get personal enjoyment from the asset?
- What is the period of ownership of the asset? Short term may indicate trading.
- Is there a pattern of regular or similar transactions?
- What is the size or quantity purchased? Is there evidence of bulk buying?
- Is there evidence of work being undertaken to enhance the value of an asset? (i.e. changes to the original asset to get a better return)
- How is the disposal undertaken? Does this reflect the way goods are normally traded?
- What is the reason for the sale? Is the motive to realise a profit and therefore a strong indicator that a trade is being undertaken?
- Financing – if loans used and repaid from profit, trading is indicated

1.3.6.2 Who is Liable to Capital Gains Tax?

Those classed as resident and domicile in the UK in the tax year of the disposal are liable to CGT on gains wherever they arise (i.e. in the UK or overseas).

Non-residents carrying on a trade profession or vocation in the UK are liable on gains arising on the disposal of business assets in the UK.

Individuals who become non-resident remain liable to CGT for the rest of the tax year of leaving. If they come back to the UK within 5 tax years of leaving, they will be liable to CGT in the tax year of their return, on any CGT due on assets held prior to leaving that were sold whilst they were away from the UK.

1.3.7 Annual Exempt Amount (AEA)

Everyone is entitled to an annual CGT exempt amount of £11,300 (2017/18). This exemption can be deducted from any gains before CGT is charged. It must be used in the year in which any gains arise.

Trustees have an annual exemption of half the individual exemption, i.e. £5,650.

If a person has set up more than one trust, then the exemption is divided amongst the trusts i.e. if there are two trusts the exemption will be £2,825 per trust. Where 5 or more trusts have been set up then each trust will have an exemption of £1,130.

CGT is charged at 10% for non and basic rate taxpayers and 20% for higher rate and additional rate taxpayers. Trustees and personal representatives are liable to CGT at a rate of 20%.

Individuals identified as non taxpayers for income tax purposes are not able to use any unused personal allowance to reduce their liability to CGT and are therefore liable at 10% on capital gains realised over and above their annual exemption.

For carried interest and chargeable gains on residential property there, is an additional charge of 8%. So non and basic rate taxpayers will be charged at 18% and higher/additional rate taxpayers and trustees/LPRs at 28%.

1.3.8 When Capital Gains Tax is paid

The normal due date of payment for CGT is the 31st January after the end of the tax year in which the gain occurred.

Taxpayers who do not normally receive a self-assessment return must tell HMRC by the 5th October following the tax year of disposal, if they have made taxable gains above £11,300, or if they dispose of chargeable assets worth more than 4 times the annual exemption. (i.e. more than £45,200 for 2017/18). Penalties could be charged if they fail to do so.

1.3.9 Exempt Assets

Gains on the following are considered to be exempt assets and not liable to CGT:

Exempt Assets
• Principle Private Residences • Private motor cars • National Savings Certificates and Premium Bonds • Gilts and most Corporate Bonds owned by an individual • Personal Equity Plans (PEPs) / Individual Savings Accounts (ISAs) • Decorations for valour if original owner • Foreign currency for personal use outside UK • Gambling winnings, Pools, Competition • Compensation for injury in profession / vocation • Shares in VCTs • Shares under EIS if held for 3 years • Woodlands • Cashbacks (Mortgage deals) • Shares held by employees in share incentive plans up to date of transfer • Most life assurance policies (except proceeds of a policy purchased 'second hand' • Gifts to charities, heritage and in the National Interest • Child Trust Funds • Disposals to charity, house associations or certain national institutions

As no gain could ever have been made on these exempt assets, if one is disposed of for a loss it cannot be offset against other gains.

1.3.10 Special rules applying to Wasting Assets and Personal Chattels

A **wasting asset** is an asset that has an estimated useful life of no more than 50 years from when it was first acquired.

Wasting assets are exempt from CGT, providing they have not been used in a business where they would have qualified for capital allowances.

An example of a wasting asset would be a piece of machinery.

A **chattel** is a tangible movable asset (e.g. a painting or antique).

Where the proceeds from a sale of a chattel fall below £6,000, they will be classified as exempt.

Where the proceeds from the sale of a chattel are between £6,000 and £15,000, the chargeable gain cannot exceed 5/3rds of the disposal amount over £6,000.

A diamond ring was bought for £1,000 and sold for £7,800 resulting in a gain of £6,800 or when applying the excess rule, an excess of £1,800.

What is the correct figure to use for the chargeable gain?

Calculate the actual gain made - £7,800 less £1,000 = £6,800

Calculate the 5/3rds excess rule - £7,800 less £6,000= £1,800 x 5/3rds = £3,000

Identify the lower figure.

CGT is payable on the lower figure of £3,000 and not the actual £6,800 gain.

1.3.11 Private Residence Relief (PPR)

An individual's home is usually exempt from any Capital Gains Tax.

However, if he or she has two houses, only their chosen place of residence will be exempt. The individual can choose which property can benefit from the exemption. If HMRC are not informed of their choice within two years of the purchase of the second property, then they will decide which one receives the PPR.

Normally the sale of a second home would be subject to CGT. Gains will be charged at 18% for non and basic rate taxpayers and at 28% for higher/additional rate taxpayers and trustees/LPRs.

The amount of gain on which CGT would be paid can be reduced in certain circumstances as listed below:-

Timescales that can be ignored:

- Any period before April 1982
- Up to 1 year from the initial purchase of the property
- Periods of absence totalling 3 years as long as there is a period of residence either side
- The last 18 months of ownership, if the property was the individual's principal property at some point
- Periods of up to 4 years if absence due to working elsewhere in the UK, so long as you lived in the property before and after the absence and have not claimed PPR on another property
- As above but without time limit where the employment was abroad
- Any period if living in job related accommodation where there is a clear intention to return to the property

Where someone lets part of their main residence, that part may be subject to CGT.

There is, however, a special letting exemption where it is let for residential use. This means that the gain on the let part is exempt up to the lower of £40,000 and the exemption on the part occupied by the owner (if there are joint owners this will be £80,000). This exemption applies even if the whole house has been let for part of the period of ownership.

The main residence can include land up to 0.5 of a hectare or a similar amount if the property's character would suggest a requirement for a larger garden.

This letting exemption can also apply to a property sold by a deceased person's representatives as long as the property has been occupied by beneficiaries of the deceased person as their main residence both before and after death and they must be entitled to the whole or the majority of the proceeds outright or for life.

Where part of a house is used exclusively for business purposes, the exemption will not apply to that section. If however, part of a home is used for business (e.g. a bedroom used as an office) and also partly for personal use no restrictions apply.

1.3.12 How Capital Gains Tax is calculated

Steps 1 to 7 should be completed for each asset at the time of disposal		
1	Disposal event occurs	Sale, transfer or gift is made or agreed. This is the date the gain or loss is deemed to have occurred.
2	Disposal proceeds realised	The amount received from the sale or the market value of the asset being transferred if sale either not at arms' length or if asset gifted.
3	Less disposal associated costs	Disposal costs include costs of sale, commission, legal fees etc.
4	Less original costs	Cost of purchase or market value at time of asset received.
5	Less acquisition associated costs	Associated purchase costs include costs of purchase, commission, legal fees etc.
6	Less enhancement costs	Any costs to improve the asset.
7	Equals gain or loss	The net gain or loss per item after allowable expenses / costs.
At the end of the tax year, all items are then brought together to calculate an individual's CGT liability if any for that tax year		
8	Add any other gains / losses	Bring together all gains for the tax year then reduce these by any losses realised in the current tax year.
9	Deduct Annual Exempt Amount	If a gain is identified for the year then reduce this by the annual exemption of £11,300 (2017/18) per person. If a loss is realised then no CGT is payable.
10	Allocate any losses being carried forward from previous years	If there is a still a gain after the annual exemption, this can then be reduced again by any losses from previous years.
11	Calculate tax at 10%/20% (or 18%/28% if carried interest or chargeable gains on private residential property).	If there is still a gain, CGT is due at either 10% or 20% (or 18% or 28% depending on the asset), depending on the individual's tax status.
12	Pay Tax 31 January following the end of tax year	Payable by self assessment.

1.3.12.1 Allowable Expenses

Purchase and sale costs can be deducted from the CGT calculation. Allowable costs include: transaction fees, legal costs, stamp duty, estate agents fees.

A further deduction is allowed to cover the cost of improvements (not maintenance) made to an asset.

If an asset is created by its owner then capital expenditure incurred during creation can be deducted.

Have a go at this example:

Phyllis purchased a cottage in Devon for £100,000 in July 1982.

She paid legal costs of £300 and Stamp Duty of £1,000.

An extension was added to the property in 2006 costing £30,000.

Phyllis sold the property in July 2012 for £300,000.

The estate agent fees along with the legal fees totalled £4,500.

What is her net gain for CGT purposes?

Disposal Proceeds		= £300,000
Less Associated Disposal Costs of	(£4,500)	= £295,500
Less Original Costs of	(£100,000)	= £195,500
Less Associated Purchase Costs of	(£1,300)	= £194,200
Less enhancement costs of	(£30,000)	= £164,200

The net gain from the asset to be used for Capital Gains Tax purposes is £164,200.

1.3.12.2 Losses

Where the disposal of an asset results in a loss rather than a gain, the amount of the loss must be offset against any gains made in the same tax year before applying the annual exemption.

If gains are not more than the annual exempt amount of £11,300 no tax is payable.

If gains exceed £11,300 then any unused losses from previous years can then be used to bring the gain down as near to the annual exemption as possible to create a nil tax position.

Any other losses can then be saved to use in future years. If, in the future, an individual is faced with gains after they have used their annual exemption, they can then use the saved losses to reduce any potential gains.

If no losses are available, or if after the use of losses there is still a gain over the annual exemption, the excess gain is charged at 10%/20% or 18%/28%, depending on the tax status of the taxpayer and the type of asset concerned.

Losses of one spouse cannot be set against the gains of the other.

Losses can be carried forward indefinitely, but must be reported to HMRC within 4 years of end of tax year – even if not used in that period.

Have a go at the example below:

Jo has gains of £19,000 and also £1,700 losses in 2016/17.

She has losses from previous tax years of £30,000.

What losses can she carry forward into next year?

Gains for 2016/17 = £19,000

Less Losses for 2016/2017 of £1,700 = £17,300

Less Annual Exempt Amount of £11,100 = £6,200

Losses of £30,000 available – therefore use £6,200 from this reserve to eliminate the potential for payment of CGT.

Losses to carry forward reduced to £23,800

1.3.12.3 Part Disposals

It is not always the case that assets are completely disposed of. On occasion a part disposal may take place. There is a need therefore to calculate the proportionate purchase cost of part being sold.

This is done by using the following formula and applying the resulting factor to the original purchase price:

A = Proceeds of the Part Disposal

B = Market Value of Retained Property

$$\text{Original cost} \times \frac{A}{A + B}$$

(Original cost is the net cost after associated purchase costs have been taken into account)

1.3.13 Reliefs

1.3.13.1 Entrepreneurs' Relief

This is a relief given on the first £10 million of lifetime gains made by an individual on the disposal of all or part of their business (including shares) or their business' assets after the business has ceased.

To be eligible for Entrepreneurs' Relief:

- The individual must have a qualifying interest in the business being sold. For sole traders and partnerships this means they must own the business.
- For shares and securities in a trading company, the individual must be an officer or employee of the company and own at least 5% of the ordinary share capital.
- Their interest in the business must have existed for at least one year prior to disposal.
- Shares received through an Enterprise Management Incentive Scheme after 5 April 2013.

CGT is charged at 10% on the first £10 million.

Have a go at the examples below:

Alan has £10 million gains eligible for Entrepreneurs' Relief.

As a higher rate taxpayer, how much CGT will be payable if we assume he has already used his annual exemption?

£10,000,000 x 10% = £1,000,000 CGT payable

10% applies regardless of the tax status of the individual.

Mr Sweetener, aged 72, a higher rate taxpayer and entrepreneur who sets up and sells businesses successively. He has done this and made gains of £4,500,000, £3,750,000, & £1,900,000 respectively.

How much CGT will be payable if we assume he has already used his annual exemption?

Assuming all of the gains are eligible for the relief, all of his gains will qualify for Entrepreneur's Relief, but taking him above his £10 million lifetime limit:

£4,500,000 + £3,750,000 + £1,900,000 = £10,150,000

These gains will be taxed as follows:

£10,000,000 at 10% = £1,000,000
£150,000 at 20% = £30,000

1.3.13.2 Holdover Relief and Rollover Relief

Holdover relief applies to gifts of business assets. That is, assets used in, or shares of, an unquoted trading company. Both parties to the gift can jointly elect to "holdover" any gains arising. Claims are usually made with the tax return but the overall time limit is 4 years from the end of the year of assessment.

The person receiving the gift agrees to accept any chargeable gains that have arisen during the period of ownership of the person giving the asset.

When the person receiving the asset disposes of it, the chargeable gains that arose during both periods are charged to capital gains tax.

This is the same principle we've seen applied to gifts between spouses.

Gifts of assets to beneficiaries from a trust can be subject to holdover relief claims. So when the beneficiary finally disposes of the asset, they will be liable for capital gains tax on gains that have arisen in their period of ownership and the trust's period of ownership.

Let's look at an example of holdover relief:

Ken, a higher rate taxpayer, owns 70% of family company Lee & Sons Ltd. He gives a 20% shareholding to his son Fred. If Ken had sold these shares he would have made a gain of £50,000.

The effect of claiming holdover relief is:

- Ken does not have to pay CGT on the disposal of his shares
- Disposal of shares after allowances would have created a CGT bill of £7,740 (£50,000 less annual exempt amount of £11,300 x 20%)
- Fred becomes the owner of the shares but takes the original acquisition cost rather than market value for any future disposals
- If Fred chooses to dispose of these shares before he dies, the original acquisition cost will be used in the calculation, effectively including the deferred £50,000 gain
- If Fred holds the shares till he dies then no CGT will be payable and the person (s) who inherit(s) will take the shares at their market value at the date of death

Rollover Relief can apply when an individual engaged in a business or a company sells an asset and purchases another business asset within a specified period. Payment of tax on any capital gain on the original disposal can then be delayed until the subsequently purchased asset is sold.

The specified period is between one year before the sale and three years after. The relief applies to sole traders, partnerships and companies.

The assets must be qualifying, i.e. agreed to be eligible by HMRC for relief, but does not have to be the same type as the one sold.

An example of how rollover relief works is shown below:

In this example of rollover relief, the full gain has been reinvested so the cost of the replacement asset for CGT purposes will be only £20,000.

Sale price	£150,000
Qualifying asset original cost	£ 90,000
Gain	£ 60,000
New qualifying asset bought for	£ 80,000

It is possible to rollover or holdover all or part of the disposal proceeds rather than the full amount.

A company must claim rollover or holdover relief within four years of the end of the relevant accounting period.

Individuals have four years from the 31st January following the relevant tax year to make a claim on their tax return under the self-assessment rules.

<u>1.3.13.3 Rollover Relief on Incorporation of a business</u>

This relief applies where an unincorporated business is transferred to a limited company in exchange for new shares in that company.

Normally this would be seen as a disposal at market value. However, relief is given by reducing the gain from the issue price of the new shares.

The relief therefore is effectively a reduction in the base cost of the new shares.

For the relief to be applied all of the assets of the former company must be transferred to the new company and the transaction must be completed as a going concern. Part relief is also available if the transaction is part cash, part shares.

1.3.13.4 Reinvestment into Enterprise Investment Scheme (EIS) Shares

This relief is given where capital gains realised are reinvested into EIS shares.

The investment must be completed within the 12 months prior to the gain being made and 3 years after it.

Payment of the original gain is then deferred until the disposal of the EIS Shares takes place. The original gain then becomes taxable.

Gains on EIS Shares are normally exempt from CGT if they have been held for three years. If the EIS shares are held to the date of the investor's death then no CGT will be payable on either the EIS Shares or the original gains.

1.3.14 Capital Gains Tax and Share Identification Rules

If you have bought shares in the same company over a period of time at different costs and then sell just part of your shareholding in that company, there is no way of knowing which of the shares you've sold and what your original purchase price was.

To get around this problem, HMRC introduced the Share Identification Rules – a set of rules which define the exact order in which purchases are matched to sales. When you sell shares in a company, you look at your overall holding of shares in that particular company and match the disposals with shares purchased in the following order:

- Shares acquired on the same day as the disposal
- Shares acquired in the 30 days following the date of disposal, matched on a first in first out basis (this is called the 'bed and breakfasting' rule)
- Shares acquired before the disposal date, which are pooled together and their cost averaged (now known as a "Section 104" holding).

Share Identification Example

1 Feb 2016 Buy 2000 shares XYZ plc @ 100p each = £2,000
1 Mar 2016 Buy 2000 shares XYZ plc @ 150p each = £3,000
1st Apr 2016 Buy 2000 shares XYZ plc @ 200p each = £4,000

Later on in the day on 1st Apr 2016 the share price rises, so you sell your holding.

1st Apr 2016 Sell 6000 shares XYZ plc @ 250p each = £15,000

3 weeks later the share price has fallen and the company looks undervalued so you purchase 2000 more shares.

21st Apr 2016 Buy 2000 shares XYZ plc @ 120p each = £2,400

Taking into account the HMRC Share Identification Rules, the sale of 6000 shares on 1st Apr 2016 is firstly matched with the 2000 shares acquired on the same day:

2000 shares XYZ plc sold on 1st Apr 2016 @ 250p = £5,000
2000 shares XYZ plc bought on 1st Apr 2016 @ 200p = £4,000
Gives a capital gain of: £1,000

This leaves 4000 of the 6000 shares sold on 1st Apr 2016 still to be matched.

The purchase of 2000 shares on 21st Apr 2016 falls within the 30 day bed and breakfasting period. And so, of the 4000 remaining unmatched shares from the 1st Apr 2016 sale, 2000 are matched with the 2000 shares purchased on 21st April 2016.

2000 shares XYZ plc sold on 1st April 2016@ 250p = £5,000
2000 shares XYZ plc bought on 21st April 2016 @ 120p = £2,400
Gives a capital gain of: £2,600

The remaining 2000 shares from the 1st Apr 2016 sale are matched with the shares purchased prior to the disposal date.

The purchases made on 1st Feb and 1st Mar 2016

1st Feb 2016 Buy 2000 shares XYZ plc @ 100p each = £2,000
1st Mar 2016 Buy 2000 shares XYZ plc @ 150p each = £3,000

are pooled together and their cost averaged, in a Section 104 holding:

1st Feb 2016 Section 104 Holding of 2000 shares XYZ plc @ 125p = £2,500

2000 shares XYZ plc sold on 1st April 2016@ 250p = £5,000
2000 shares XYZ plc (Section 104 Holding) @ 125p = £2,500
Gives a capital gain of: £2,500

The total Capital Gain on the sale of the 6000 shares in XYZ plc on 1st Apr 2016 is therefore £1,000 + £2,600 + £2,500 = £6,100; leaving you with a pool of 2000 shares in XYZ plc of total cost £2,500 to carry forward into the following tax year.

1.3.14.1 Acquisition within the following 30 days

Previously, investors used to make use of their annual exemptions by engaging in a transaction known as ‘Bed and Breakfasting’. Sales of shares were made on one trading day and bought back the following day. Although there were dealing costs involved, it was a method used especially around the end of the tax year to ensure the maximum benefit of the annual exemption had been claimed and gave a new base price to the shares repurchased to use against subsequent sales.

The ability to 'Bed and Breakfast' no longer exists – Sales and repurchases made within 30 days are now identified and batched together for tax purposes as we saw in the previous section.

It is only tax efficient now to complete this transaction with a 30 day break and the risk of the share price movement is much wider to the investor.

1.3.14.2 CGT and different types of share

The way in which shares are acquired directly influences the price that is used within the CGT calculation.

Bonus Scrip Dividends	There is no extra acquisition cost for Bonus / Scrip Issue shares as they are issued free to existing shareholders. For CGT purposes they are treated as if acquired at the same day as the original share holding.
Scrip Dividends **Stock Dividends**	Where shares are paid to an investor instead of a cash dividend payment, these are treated as new acquisitions and take the base price of the shares at the time of issue.
Rights Issues	When an individual participates in a rights issue the additional shares received will come at a cost to the investor. These shares along with the acquisition costs associated to them will normally be added to the share pool.
Employee Share Schemes	If shares are purchased under approved employee share schemes and unapproved share schemes on the same day and later disposed of, an election can be made to have the approved shares treated as being disposed of first. This ensures they are not pooled with other shares of the same class held by the employee.

1.3.15 Calculating the Annual Tax Bill

Have a go at calculating the annual tax bill in the examples below.

Use the table from 1.3.12 if you need a guide.

Graham bought an antique for £10,000 in October 1997.

He decided to sell it in June 2017 when its market value reached £32,500.

The costs incurred in advertising and selling the item amounted to £2,500.

How much is his CGT bill assuming he is a basic rate taxpayer?

Take the final value of the asset	£32,500
Minus any incidental costs of disposal	£ 2,500
Equals 'Net Proceeds'	£30,000
Minus purchase price/value at acquisition (include Any purchase costs / enhancement expenses)	£10,000
Equals Capital Gain or Loss	£20,000
Minus:	
Capital Losses (if any) from current	Nil
Exemptions / Reliefs, e.g. annual exempt amount for the year of disposal	£11,300 (2017/18)
Equals Chargeable Gain (or Allowable Loss)	£ 8,700
Charged at 10%	£ 870

Tom and Barbara Jessop bought a painting jointly in 1977 for £10,000. They sell the painting for £49,000 in June 2017, resulting in a gain of £39,000.

However, the value of the painting as at 31st March 1982 (the Base Cost value date) is adjudged to be £14,800 meaning that, for CGT purposes, the basic gain is assessed as £34,200 (49,000 – 14,800). In this case, however, there are disposal costs of £1,200 to take into account. How much is the CGT bill assuming they are higher rate taxpayers?

Take the final value of the asset (e.g. disposal proceeds if sold or market value if given away)	£49,000
Minus any incidental costs of disposal (e.g. legal fees, advertising costs)	£ 1,200
Equals 'Net Proceeds'	£47,800
Minus purchase price/value at (31st March 1982) Base Cost Date (incl. Any purchase costs/ enhancement expenses)	£14,800
Equals Capital Gain or Loss	£33,000
Minus:	
Capital Losses (if any) from current year	Nil
Exemptions/Reliefs e.g. annual exempt amount for the year of disposal (£11,300 (2017/18) x 2 as asset held jointly)	£22,600
Equals Chargeable Gain (or Allowable Loss)	£ 10,400

Tax liability is therefore:

£2,080 (£10,400 x 20%)

If the sale proceeds were less, the joint Annual Exemption may have mitigated the liability completely.

Personal Taxation Learning Outcome 1.3 (TAX1.3) – End of Module Test

Multiple Choice Questions

Question	Answer	
1.3.1 - Which of the following disposals will NOT give rise to a CGT liability?	A.	A disposal of an asset that arises on the death of the individual owner.
	B.	Sales of an asset at market value to a third party.
	C.	Sale of an asset at substantially below market value to a third party.
	D.	Gift of an asset to a son or daughter.

Question		Answer
1.3.2 - If disposal of an asset attracts an immediate charge to IHT, what relief against CGT can generally be claimed?	A.	Entrepreneurs relief
	B.	Holdover relief
	C.	Rollover relief
	D.	EIS Reinvestment relief

Question		Answer
1.3.3 - Andrew disposes of a chattel in July 2017 which he bought for £3,000 in May 2008. The disposal proceeds are £7,000. How much is the MAXIMUM chargeable gain for CGT?	A.	£1,000
	B.	£1,667
	C.	£4,000
	D.	£6,000

Question		Answer
1.3.4 - Graham disposes of an asset on 21st April 2017 making a chargeable gain. When will he have to pay any CGT due?	A.	31st July 2017
	B.	31st January 2018
	C.	31st July 2018
	D.	31st January 2019

1.3.5 - In relation to rollover relief for CGT, which of the following statements is INCORRECT?	A.	The business must be trading.
	B.	The assets sold must have been used for trading purposes.
	C.	The sale price has to be reinvested in new assets for use in the business.
	D.	The new assets must be bought in a period starting three years before and ending one year after the disposal of the old assets.

1.3.6 - An asset was bought by a man for £22,000. Two years later, when it was valued at £46,000, he gifted it to his wife. If his wife subsequently disposes of the asset, its base value will be ...	A.	Nil
	B.	£22,000 (the original purchase price)
	C.	£24,000 (the difference between the value when bought and the value when gifted)
	D.	£46,000 (the value at the time of the gift)

1.3.7 - A non taxpayer makes a chargeable capital gain in the 2017/18 tax year. After the annual exemption, they will be charged capital gains tax at a rate of...	A.	0%
	B.	10%
	C.	18%
	D.	20%

1.3.8 - Where an asset paid into a UK trust makes a gain, how much annual exemption can be set against that gain in 2017/18 if the settlor has previously set up just one other UK trust?	A.	£2,825
	B.	£5,650
	C.	£8,475
	D.	£11,300

1.3.9 - The sale of which of the following are NOT exempt from CGT?	A.	REITs
	B.	EISs after they've been held for three years
	C.	VCTs
	D.	ISAs

1.3.10 - Tom is retiring and sold his upholstery business in May 2017. He made a gain after all expenses of £2.5 million. Assuming he has already used his annual CGT exemption, how much CGT will he have to pay on this gain?	A.	£248,890
	B.	£250,000
	C.	£450,000
	D.	£500,000

- End of Questions -

Answers

Question	Answer	
1.3.1 - Which of the following disposals will NOT give rise to a CGT liability?	A	A disposal of an asset that arises on the death of the individual owner.
1.3.2 - If disposal of an asset attracts an immediate charge to IHT, what relief against CGT can generally be claimed?	B	Holdover relief
1.3.3 - Andrew disposes of a chattel in July 2017 which he bought for £3,000 in May 2008. The disposal proceeds are £7,000. How much is the MAXIMUM chargeable gain for CGT?	B	£1,667
1.3.4 - Graham disposes of an asset on 21st April 2017 making a chargeable gain. When will he have to pay any CGT due?	D	31st January 2019
1.3.5 - In relation to rollover relief for CGT, which of the following statements is INCORRECT?	D	The new assets must be bought in a period starting three years before and ending one year after the disposal of the old assets.
1.3.6 - An asset was bought by a man for £22,000. Two years later, when it was valued at £46,000, he gifted it to his wife. If his wife subsequently disposes of the asset, its base value will be ...	B	£22,000 (the original purchase price)

1.3.7 - A non taxpayer makes a chargeable capital gain in the 2017/18 tax year. After the annual exemption, they will be charged capital gains tax at a rate of...	B	10%
1.3.8 - Where an asset paid into a UK trust makes a gain, how much annual exemption can be set against that gain in 2017/18 if the settlor has previously set up just one other UK trust?	A	£2,825
1.3.9 - The sale of which of the following are NOT exempt from CGT?	A	REITs
1.3.10 - Tom is retiring and sold his upholstery business in May 2017. He made a gain after all expenses of £2.5 million. Assuming he has already used his annual CGT exemption, how much CGT will he have to pay on this gain?	B	£250,000

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