

Capital Gains Tax (CGT)

Each disposal of a chargeable asset, except on death, gives rise to the calculation of the chargeable gain or loss. The gain or loss is basically the disposal value less the acquisition value, less certain expenses of acquisition and disposal. In general, only gains or losses accrued since 31 March 1982 will be taken into account. Assessments for individuals are made for each year beginning on 6 April, on the total amount of gains in that year, after deducting losses in that year, together with any losses carried forward from previous years.

Items excluded from tax include:

- The principal private residence.
- ISAs and PEPs
- Life policies, unless the person making the disposal is not the original owner and acquired their interest for consideration.
- Gilt-edged securities and qualifying corporate bonds.
- National Savings Certificates, British Savings Bonds, National Development Bonds, SAYE deposits and Premium Bond winnings.
- Currency for private use.
- Chattels with a value of not more than £6,000 and certain wasting chattels.
- Private cars.
- Gifts to charities and National Heritage Bodies.
- Betting and lottery wins.
- Shares in Enterprise Investment Scheme companies held for three years

Net gains on both business and non business assets in excess of the individual annual exemption of £9,600 (£4,800 for certain trustees) are subject to tax at 18%*. Taxpayers are not able to set unused allowances or income tax relief against capital gains. Capital gains tax is payable as part of a taxpayer's self-assessment. There are no payments on account for capital gains tax. The tax must be paid on or before 31 January following the year of assessment. The chargeable gains of husband and wife are taxed separately although transfers between spouses do not give rise to a charge to tax.

Please note that from 6 April 2008 both taper relief and indexation allowance have been withdrawn.

Reliefs

Gains may qualify for one of five CGT reliefs:-

*Entrepreneur Relief

This relief provides a 10 per cent tax rate up to the first £1 million of lifetime capital gains on disposals of trading businesses and certain disposals of shares in trading companies. To qualify you must own a stake of at least 5% in the trading business and you must also be an employee, company director or other officer of that company.

Holdover relief

Individuals can hold over the gain on disposal of certain assets. The main categories that qualify are transfers chargeable to Inheritance Tax, such as gifts into trusts, and disposals of

trading assets. However, holdover relief is not available for transfers of assets to a trust in which the settlor has an interest.

If holdover relief is claimed, no tax is payable at the time of the gift, but the acquisition cost to the donee is reduced by the amount of the held over gain. This increases the amount of any gain made by the donee on a subsequent disposal.

Business rollover relief

Businesses, both companies and unincorporated, can claim relief if they sell assets used in the business and buy other assets for the business. Not all assets can benefit from this relief, but it is available for land and buildings, fixed plant and machinery, ships, aircraft and goodwill. The relief defers the gain until the disposal of the new assets.

To qualify

- The company or business must be trading
- The assets sold must have been used for trading purposes
- The sale price has to be reinvested in new assets for use in the trade
- The new assets must be bought in a period starting one year before and ending three years after the disposal of the old assets

Rollover relief on incorporation

If an unincorporated business is transferred to a limited company in exchange for new shares in that company then rollover relief is available. Relief is given by deducting the gain from the issue price of the shares.

Reinvestment relief

This relief may be claimed on any disposal of assets if the gain is invested in shares that qualify under the Enterprise Investment Scheme (EIS). The gain on the original disposal is deferred until the disposal of the EIS shares. At that point, the original gain will be taxable although any subsequent gain on EIS shares is normally exempt.

To qualify, the investment must be made in the period starting 12 months before and ending three years after the disposal subject to CGT.

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