February Blog - Capital Gains Tax – have you used up your allowance?

Our tax planning and wealth management specialist Rob Fearnley answers your most common questions about this valuable tax relief.

Capital Gains Tax is a tax on the profit when you sell (or 'dispose of') something (an 'asset') that has increased in value. It's the gain you make that is taxed, not the amount of money you receive, and the allowance for 2015/16 is £11,100.

There are four steps to working out whether you have made a taxable gain or loss:

- **Step 1** Start with the final value. This is usually the sale proceeds or the market value if you give the item away.

- **Step 2** Deduct the initial value. This is usually the price you paid or the market value when you were given the item. For anything you have owned since before March 31 1982, it is the market value on that date.

- **Step 3** Deduct any allowable expenses. These include the costs of buying and selling (for example, dealing costs, stamp duty and advertising). They also include the cost of improving the asset, provided the improvement is reflected in the item's value.

- **Step 4** If the answer is a loss, you can get tax relief by setting it against gains on other assets either this year or in future.

Now add together all your gains for the year, deduct any losses and your annual tax-free allowance. For 2015-16 the allowance is £11,100, for 2014-15 it was £11,000.

Some of your most common Capital Gains Tax questions answered:

1. **Why do I have to pay capital gains tax on a gift as surely I haven't made a profit?**

   Where gifts are between a husband and wife or registered civil partners there is no tax to pay at the time, but as any gain passes to the new owner this may be taxed later on at 'disposal'.

   Gifts to charities, private cars and personal possessions (referred to as 'chattels') such as antiques worth no more than £6,000 are tax-free, however, if you sell a set (of china, for example), the £6,000 limit applies to the set, not each item. More valuable chattels may also be exempt, as long as their useful life is 50 years or less. These are known as 'wasting assets'. An example is a boat or a caravan, antique clock or a vintage car.

   If your gain is not tax-free, capital gains tax is charged in a special way. Your taxable gain is the lower of the actual gain or five thirds (166%) of the excess of the final value over £6,000.

2. **Do I have to pay capital gains tax on property?**

   You may have to pay Capital Gains Tax if you make a profit ('gain') when you sell (or 'dispose of') property that's not your home, for example:

   Buy-to-let properties

   Business premises

   Land

   Inherited property

   There are different rules if you sell your home. You'll need to work out your gain to find out whether you need to pay tax. If the property was occupied by a dependent relative you may not have to pay.

   You don't pay Capital Gains Tax when you sell (or 'dispose of') your home if all of the following apply:

   - You have one home and you've lived in it as your main home for all the time you've owned it.
   - You haven't let part of it out - this doesn't include having a single lodger.
   - You haven't used part of it for business only.
   - The grounds, including all buildings, are less than 5,000 square metres (just over an acre) in total.
   - You didn't buy it just to make a gain.

   In these cases you will automatically get a tax relief called Private Residence Relief.

Married couples and civil partners can only count one property as their main home at any one time.

3. When I die, does my estate have to pay capital gains tax?

When you inherit an asset, Inheritance Tax is usually paid by the estate of the person who's died. You only have to work out if you need to pay Capital Gains Tax if you later dispose of the asset.

4. What can I deduct from my gain?

Deduct any allowable expenses. These can include the costs of buying and selling (for example, dealing costs, stamp duty and advertising). They also include the cost of improving the asset, provided the improvement is reflected in the item's value.

5. What rate of capital gains tax do I pay?

Capital gains tax is charged at two rates. Those who pay basic rate income tax pay CGT at 18%, but higher rate taxpayers are charged CGT at 28%.

If you are a basic rate taxpayer by virtue of your income, but have made large enough taxable capital gains to push you over the threshold above which income tax is levied at 40% (£31,765 taxable income in 2015-16, £31,865 in 2014-15), you will pay the higher rate of CGT on the portion of gains that takes you over the threshold.

You don't pay capital gains tax on the full amount you make as everyone has a yearly tax-free allowance: £11,100 in 2015-16, £11,000 in 2014-15.

Not sure if you have an asset which could be subject to Capital Gains Tax?

Need advice on working out your tax bill or unsure which deductions can apply?

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