CAPITAL GAINS TAX

What Is Capital Gains Tax?

Capital Gains Tax (CGT) is a tax on the profit (the "gain") you make when you sell, give away, transfer, or dispose of an asset that has increased in value. Importantly, the tax is charged on the gain—not the total sale price.

Example (from HMRC)

If you bought an asset for **£5,000** and later sold it for **£25,000**, your **gain** is **£20,000** — and this is the amount subject to CGT.

What Counts as a "Disposal"?

CGT applies when you:

- Sell an asset
- Gift it to someone
- Swap it for something else
- Receive compensation (e.g., insurance payout for destruction/loss)

Which Assets Does CGT Apply To?

Most assets that can appreciate, including:

- Shares and investments
- Property other than your main home
- Business assets
- Personal possessions over £6,000 (art, jewellery, etc.)

Assets Exempt From CGT

- Your main residence (if qualifying for Private Residence Relief)
- Cars
- Cash
- Shares held in ISAs
- Gifts to a spouse or charity

Annual Exempt Amount

Everyone receives a tax-free allowance each tax year.

- **£3,000** for individuals in 2024/25 and 2025/26
- **£1,500** for most trusts

If your total gains are below this amount, no CGT is payable.

How is CGT Calculated?

Taxable Gain = Sale Price − Purchase Price − Allowable Costs − Annual Exemption

Allowable costs may include:

- Improvement costs
- Professional fees (legal, agent, valuation)

What are the current tax rates?

Rates depend on:

- Your **income tax band**, and
- The **type of asset** (property vs. other assets)

Typical CGT rates:

- **10% or 20%** for most assets
- **18% or 24%** for residential property

Who pays Capital Gains Tax?

CGT applies to:

- **Individuals** (UK tax residents)
- **Trusts**
- **Personal representatives**
  Companies do **not** pay CGT—they pay **Corporation Tax** on chargeable gains.

Illustration of Capital Gains Tax Calculation (UK)

You sell an asset with these details:

- Purchase price (base cost): £20,000
- Sale price (disposal proceeds): £50,000
- Allowable costs: £2,000
  (e.g., legal fees, improvement costs)
- Annual CGT exemption (2025/26): £3,000
- Taxpayer type: Basic rate taxpayer
- Asset type: Shares (CGT rate 10%)

Step 1 — Determine Your Disposal Proceeds

This is the amount you receive from selling the asset.

Disposal proceeds = £50,000

Step 2 — Establish Your Base Cost (Acquisition Cost)

This includes:

- Purchase price
- Incidental buying costs (e.g., broker fees)

Here:

Base cost = £20,000

Step 3 — Deduct Allowable Expenditure

Allowable expenditure includes:

- Legal fees
- Improvement costs
- Selling fees

Here:

Allowable costs = £2,000

Step 4 — Calculate the Gain Before Reliefs

Formula:
Gain = Disposal proceeds − Base cost − Allowable costs

= **£50,000 − £20,000 − £2,000 = £28,000**

Step 5 — Apply Capital Losses (If Any)

You have **no losses**, so the gain remains: **£28,000**

Step 6 — Apply the Annual Exempt Amount

Annual exemption for individuals (2025/26): **£3,000**

Taxable gain = £28,000 − £3,000 = £25,000

Step 7 — Calculate the CGT Due

This depends on:

- Your income tax band
- Type of asset

Basic-rate taxpayer CGT on shares = **10%**

CGT liability = £25,000 × 10% = £2,500

<u>Conclusion:</u>

Stage	Amount
Gain before exemptions	£28,000
Less: Annual exemption	£3,000
Taxable gain	**£25,000**
CGT rate (basic-rate, shares)	10%
CGT payable	**£2,500**

End.