

## Capital Gains Tax

A capital gain arises when certain capital (or 'chargeable') assets are sold at a profit. The gain is the sale proceeds (net of selling costs) less the purchase price (including acquisition costs).

### What are the main features of the current system?

- From 6 April 2016 capital gains tax (CGT) is charged at the rate of 10% on gains (including any held over gains coming into charge) where net total taxable gains and income is below the income tax basic rate band threshold. Gains or any parts of gains above the basic rate band are charged at 20% with a few exceptions which are considered in the 'Exceptions to the CGT rates section' below.
- Entrepreneurs' Relief (ER) or Investors' Relief (IR) may be available on certain business disposals.

### Entrepreneurs' Relief (ER)

ER may be available for certain business disposals taking place on or after 6 April 2008 and has the effect of charging the first £10m (from 6 April 2011) of gains qualifying for the relief at an effective rate of 10%.

The relief will apply to gains arising on a disposal of:

- the whole, or part, of a trading business that is carried on by the individual, either alone or in partnership;
- shares in a trading company, or holding company of a trading group, provided that the individual owns broadly a 5% shareholding and has been an officer or employee of the company;
- assets used by a business or a company which has ceased;
- assets used in a partnership or by a company but owned by an individual, if the assets disposed of are 'associated' with the withdrawal of the individual from participation in the partnership or the company.

A trading business includes professions but only includes a property business if it is a 'furnished holiday lettings' business.

Restrictions on obtaining the relief on an 'associated disposal' are likely to apply in certain specific situations. This includes the common situation where a property is currently in personal ownership, but is used in an unquoted company or partnership trade in return for a rent. Under ER the availability of relief is restricted where rent is paid from 6 April 2008 onwards.

In the Autumn Budget 2017 the government announced that they will consult on how access to ER might be given to those whose holding in their company is reduced below the normal 5% qualifying level as a result of raising funds for commercial purposes by means of issues of new shares. Allowing ER in these circumstances would incentivise entrepreneurs to remain involved in their businesses after receiving external investment.

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Careful planning will be required with ER but if you would like to discuss ER in detail and how it might affect your business, please do get in touch.

## Investors' Relief

Entrepreneurs' Relief has been extended to external investors (other than certain employees or officers of the company) in unlisted trading companies. To qualify for the 10% CGT rate under 'investors' relief' the following conditions need to be met:

- shares must be newly issued and subscribed for by the individual for new consideration
- be in an unlisted trading company, or an unlisted holding company of a trading group
- have been issued by the company on or after 17 March 2016 and have been held for a period of three years from 6 April 2016
- have been held continuously for a period of three years before disposal.

An individual's qualifying gains for investors' relief are subject to a lifetime cap of £10 million.

## Simplification of the share identification rules

All shares of the same class in the same company are treated as forming a single asset, regardless of when they were originally acquired. However, 'same day' transactions are matched and the '30 day' anti-avoidance rules will remain.

## Example

On 15 April 2017 Jeff sold 2000 shares in A plc from his holding of 4000 shares which he had acquired as follows:

- 1000 in January 1990
- 1500 in March 2001
- 1500 in July 2005

Due to significant stock market changes he decided to purchase 500 shares on 30 April 2017 in the same company.

The disposal of 2000 shares will be matched firstly with the later transaction of 500 shares as it is within the following 30 days and then with 1,500/4,000 (1000+1500+1500) of the single asset pool on an average cost basis.

## CGT annual exemption

Every tax year each individual is allowed to make gains up to the annual exemption without paying any CGT. The annual exemption for 2018/19 is £11,700 (2017/18 £11,300). Consideration should be given to ensuring both spouses/civil partners utilise this facility.

## Exceptions to the CGT rates

The rates of CGT are generally 10% and 20%. However 18% and 28% rates apply for carried interest and for chargeable gains on residential property that does not qualify for private residence relief. In addition, the 28% rate applies for ATED related chargeable gains accruing to any person (principally companies).

## Other more complex areas

Capital gains can arise in many other situations. Some of these, such as gains on Enterprise Investment Scheme and Venture Capital Trust shares, and deferred gains on share for share or share for loan note exchanges, can be complex. Please talk to us before making any decisions.

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## Other reliefs which you may be entitled to

And finally, many existing reliefs continue to be available, such as:

- private residence relief;
- business asset rollover relief, which enables the gain on a business asset to be deferred until a point in the future;
- business asset gift relief, which allows the gain on business assets that are given away to be held over until the assets are disposed of by the donee; and
- any unused allowable losses from previous years, which can be brought forward in order to reduce any gains.

## How we can help

Careful planning of capital asset disposals is essential. We would be happy to discuss the options with you. Please contact us if you would like further advice.

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