

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). The taxation of capital gains has been significantly revised from 6 April 2008. Below is the tax treatment for Capital gains followed by the rest of the factsheet which reviews and explains the current tax position?

If you require any assistance contact your local **abacus** accountant who can explain this to you and ensure you utilise your maximum allowance.

Capital Gains Tax - Individuals and Trustees

Annual exempt amount

		2009-10	2008-09
Individuals		£10,100	£9,600
Trusts	exemption	£5,050	£4,800
	balance of gains	18%	18%
Entrepreneurs' Relief	first £1m of qualifying gains	10%	10%
	gains in excess of £1m	18%	18%

Notes

- Individuals, trustees of settlements for the disabled, and personal representatives of the estate of a deceased person are eligible for the full exemption of £10,100 in 2009-10 for further information click on the following web page www.hmrc.gov.uk/rates/cgt.htm
- For 2009-10 all other trusts have an annual exemption of £5,050. This figure is generally reduced where more than one trust has been created by the same person, but is not reduced below £1,010 (2008-09 - £960)
- Balance of gains for 2007-08 (reduced by taper relief) are charged at the top slice of income (at savings rates - i.e. 10%, 20% or 40%)
- For 2008-09 and 2009-10 Balance of gains charged at 18%
- Transfers between spouses and civil partners living together are exempt
- Entrepreneurs Relief for gains on or after 6th April 2008 the first £1M of qualifying gains are charged at an effective rate of 10%. Gains in excess of £1M are charged at 18%.
- The types of assets qualifying for entrepreneurs' relief are, broadly, those which previously qualified for business asset taper relief. This covers:
 - a trading business carried on by the individual alone or in partnership
 - assets owned by the individual and used in their "personal" trading company or partnership; and
 - Shares or securities in a trading company where the individual owns 5% or more and is an officer or employee.
- The conditions must have been satisfied throughout a qualifying period of a year before the disposal (this period can start prior to 6th April 2008)
- Various deferred gains are also covered by the relief

Taper relief for disposals

Taper relief has been abolished for gains arising on or after 6th April 2008

Percentage relief depends on number of complete year's asset owned after 05/04/1998.

Years Of Ownership	% relief	
	Business assets	Non-Business assets
1	50%	0%
2	75%	0%
3	75%	5%
4	75%	10%
5	75%	15%
6	75%	20%
7	75%	25%
8	75%	30%
9	75%	35%
10	75%	40%

Notes

1. Apportionment may apply where asset has not been a business asset throughout the entire period of ownership
2. Taper relief abolished for gains arising on or after 6th April 2008
3. Normally, the holding period is the number of complete years (not tax years) after 5th April 1998 that the asset is held (owned). But for non-business assets held at 17.03.98 the period is deemed to increase by one year. Therefore, a non-business asset purchased on 6th April 1995 and sold on 6th April 2004 would have a holding period for taper relief of 7 years; 6 years post 5th April 1998 plus the extra year because the asset was held on 17th March 1998 - although it was held for 9 years in total

Indexation Allowance

Individuals and others within the charge to capital gains tax are not entitled to indexation allowance for any period after April 1998. To calculate indexation allowance up to April 1998 on disposals on or after 6 April 1998, use the table below.

Work out the indexation allowance by multiplying the amount spent by the indexation factor.

	1998	1997	1996	1995	1994	1993	1992	1991	1990
Jan	0.019	0.053	0.083	0.114	0.151	0.179	0.199	0.249	0.361
Feb	0.014	0.049	0.078	0.107	0.144	0.171	0.193	0.242	0.353
Mar	0.011	0.046	0.073	0.102	0.141	0.167	0.189	0.237	0.339
Apr		0.040	0.066	0.091	0.128	0.156	0.171	0.222	0.300
May		0.036	0.063	0.087	0.124	0.152	0.167	0.218	0.288
Jun		0.032	0.063	0.085	0.124	0.153	0.167	0.213	0.283
Jul		0.032	0.067	0.091	0.129	0.156	0.171	0.215	0.282
Aug		0.026	0.062	0.085	0.124	0.151	0.171	0.213	0.269
Sep		0.021	0.057	0.080	0.121	0.146	0.166	0.208	0.258
Oct		0.019	0.057	0.085	0.120	0.147	0.162	0.204	0.248
Nov		0.019	0.057	0.085	0.119	0.148	0.164	0.199	0.251
Dec		0.016	0.053	0.079	0.114	0.146	0.168	0.198	0.252

	1989	1988	1987	1986	1985	1984	1983	1982
Jan	0.465	0.574	0.626	0.689	0.783	0.872	0.968	
Feb	0.454	0.568	0.620	0.683	0.769	0.865	0.960	
Mar	0.448	0.562	0.616	0.681	0.752	0.859	0.956	1.047
Apr	0.423	0.537	0.597	0.665	0.716	0.834	0.929	1.006
May	0.414	0.531	0.596	0.662	0.708	0.828	0.921	0.992
Jun	0.409	0.525	0.596	0.663	0.704	0.823	0.917	0.987
Jul	0.408	0.524	0.597	0.667	0.707	0.825	0.906	0.986
Aug	0.404	0.507	0.593	0.662	0.703	0.808	0.898	0.985
Sep	0.395	0.500	0.588	0.654	0.704	0.804	0.889	0.987
Oct	0.384	0.485	0.580	0.652	0.701	0.793	0.883	0.977
Nov	0.372	0.478	0.573	0.638	0.695	0.788	0.876	0.967
Dec	0.369	0.474	0.574	0.632	0.693	0.789	0.871	0.971

What are the main features of the current system?

- a flat rate of capital gains tax (CGT) of 18% is to apply to all chargeable gains and
- A new Entrepreneurs' relief may be available on certain business disposals.

For any gains arising on or after 6 April 2008 and any held over gains coming into charge on or after that date, the chargeable gain will be liable to tax at 18%, after deducting allowable losses, any other reliefs and the annual exemption.

Entrepreneurs' Relief

ER may be available for certain business disposals taking place on or after 6 April 2008 and for a higher rate payer has the effect of charging the first £1m 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.

What is clear is that 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.

Simplification of the share identification rules

From 6 April 2008, all shares of the same class in the same company will be treated as forming a single asset, regardless of when they were originally acquired. However, 'same day' transactions will continue to be matched and the '30 day' anti-avoidance rules will remain.

Example

On 15 April 2009 Jeff sold 2000 shares in a plc from his holding of 4,000 shares which he had acquired as follows:

- 1,000 in January 1990
- 1,500 in March 2001
- 1,500 in July 2005

Due to significant stock market changes he decided to purchase 500 shares on 30 April 2009 in the same company.

The disposal of 2000 shares will be matched firstly with later transaction of 500 shares as it is within the following 30 days and then with 1,500/ 4000 (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 2009/10 is £10,100. Consideration should be given to ensuring both spouses/civil partners utilise this facility.

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.

Other reliefs which you may be entitled to

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

- private residence relief;
- business asset roll-over 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 abacus can help

Careful planning of capital asset disposals is essential. **abacus** will be happy to discuss the options with you.

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