

Chattels and Capital Gains Tax

This Help Sheet explains how chattels are treated for Capital Gains Tax. But it is only an introduction. If you are in any doubt about your circumstances you should ask your tax adviser. We will also be pleased to help. You can also consult our Capital Gains Manual, which explains the rules in more detail, at www.hmrc.gov.uk

This Help Sheet will help you fill in the *Capital gains summary* pages of your Tax Return.

Part 1 Introduction

What are chattels?

The word 'chattel' is a legal term meaning an item of tangible, moveable property - something you can both touch and move. Your **personal possessions** will normally be chattels.

Including:

- items of household furniture
- paintings, antiques, items of crockery and china, plate and silverware
- motor cars, lorries, motorcycles
- items of plant and machinery not permanently fixed to a building.

Private cars are exempt from Capital Gains Tax, but if you dispose of any other chattel, you may be liable to Capital Gains Tax.

Have you made a gain?

You only need to include in your Tax Return any gain on the disposal of a chattel where the disposal proceeds were more than £6,000.

Part 2 of this Help Sheet explains how to calculate gains and losses.

Part 3 explains the special rules that apply if you dispose of a set of chattels.

Parts 4 and 5 explain the rules for chattels that are wasting assets or that were used in a business.

Part 2 Disposals of single chattels

How to calculate gains and losses

You do not need to calculate any gain on the disposal of any single chattel if the disposal proceeds did not exceed £6,000.

If the proceeds exceeded £6,000, the amount of the gain to return depends on the amount of:

- the disposal proceeds, and
- the actual gain.

To find out the gain to include in the *Capital gains summary* pages, work through the following steps.

Step 1 Work out the amount by which the disposal exceeds £6,000.

Step 2 Multiply this amount by $\frac{5}{3}$.

Step 3 The result is the maximum chargeable gain.

Step 4 Work out the net gain using the *Capital gains summary notes*.

Step 5 Include in your *Capital gains summary* pages the lower of the net gain and the maximum chargeable gain.

Example 1

In August 2008 you sold an antique mirror for £7,500 that originally cost you £1,500. There were incidental costs of sale totalling £250. The disposal proceeds exceed £6,000.

Calculate the amount by which the disposal proceeds exceed

$$£6,000 (£7,500 - £6,000) = £1,500$$

$$\text{Multiply this by } \frac{5}{3} (£1,500 \times \frac{5}{3}) = £2,500$$

That is the maximum chargeable gain.

Then work out the actual gain. Your calculation will be:

Disposal proceeds		£7,500
Minus Expenses	£250	
Cost	£1,500	
		<u>£1,750</u>
Actual gain		£5,750

Compare this with the maximum chargeable gain and enter the lower figure, which is £2,500.

What happens if a loss is made?

The amount you can claim as a loss on the disposal of any single chattel also depends on the amount of the disposal proceeds.

If the disposal proceeds were less than £6,000, then your loss is restricted by treating the disposal proceeds as £6,000.

If the disposal proceeds were £6,000 or more, you can claim the full loss.

Part 3 Sets of chattels

The normal rules for calculating gains or losses on the disposal of a single chattel may not apply if you dispose of a 'set' of chattels.

What is a set?

A set is a number of chattels that are:

- similar and complementary to each other, and
- worth more together than separately.

Examples of sets are:

- chessmen
- books by the same author, or on the same subject
- matching ornaments such as vases or statuettes.

This is not a full list. If you require more details, ask us or your tax adviser.

What happens when you dispose of a set?

If you dispose of a number of chattels that form a set, the £6,000 limit that normally applies to a single chattel, applies to the set.

There are special rules that apply to sets which have been broken up and sold separately.

If the parts of the set:

- were owned by you at the same time, and
- were disposed of by you to the same person, or a number of people acting together, or a number of people who are connected, then

the £6,000 limit applies to all of the set collectively and not to each member of the set individually.

Example 2

You own a full 32 piece set of antique chessmen that cost you £3,200 (that is, each piece cost £100). Together, the set is worth £32,000.

In 2008 you sell the pieces individually to an antique dealer for £1,000 each. If the £6,000 limit were to be applied to each piece, disposals would be exempt from Capital Gains Tax. But the pieces form a set, so the £6,000 limit applies to the total consideration of £32,000 and you have chargeable gains of £28,800.

Part 4 Wasting assets

A wasting asset is an asset with a predictable life of 50 years or less. Unless you have, or could have, claimed capital allowances for it, any gain on the disposal of a chattel which is a wasting asset is exempt from Capital Gains Tax.

Certain chattels are always treated as wasting assets, for example, plant or machinery.

If capital allowances could have been claimed on the cost of the chattel, for example, because it was used in a business, any gain on its disposal will not be exempt. Part 5 of this Help Sheet deals with such chattels.

You estimate the predictable life of a chattel as it appeared to you when you originally acquired it. You have to decide what its useful life would have been, bearing in mind the purpose for which you acquired it.

Part 5 Business assets

If you dispose of a chattel which is a wasting asset that you have used in a business, trade, profession or vocation and you have, or could have, claimed capital allowances for it, then any gain you make will not be exempt and must be included on your Tax Return.

You need to take account of any capital allowances in working out your gain or loss. Help Sheet 222 *How to calculate your taxable profits*, explains how to calculate capital allowances.

If you dispose of an asset that has been used in a business, any loss you make will be restricted to take account of the capital allowances you have received.

Example 3

You acquire an item of plant for £20,000 and use it in a trade. You are entitled to claim capital allowances. After three years, you sell it in 2008 for £7,500.

You claimed net capital allowances, including any balancing charge or balancing allowance, of £12,500.

You have had the whole of your loss of £12,500 as capital allowances. So your Capital Gains Tax allowable loss is reduced to zero.

These notes are for guidance only and reflect the position at the time of writing. They do not affect any rights of appeal.