Inland Revenue

Capital Gains Tax

A quick guide

This leaflet tells you when you might have to pay CGT and can reassure you about when you do not.

CAPITAL GAINS TAX
CGT/FS1

Contents

We have a full range of services for people with disabilities, including leaflets in Braille, audio and large print. For details, please ask your local Inland Revenue office or Enquiry Centre.

If you sell an asset you may have to pay Capital Gains Tax (CGT). An asset is something that you own - such as shares or property. You may also have to pay CGT if you give away an asset.

How this leaflet can help you

Have you sold something, such as shares, land and buildings, part of your garden or an antique and wondered whether there was any tax to pay?

Or you might be thinking of selling something or giving it away and wish to know if you will have to pay any tax.

This leaflet may help you to decide if there might be Capital Gains Tax to pay and what you should do about it.

This is only a short leaflet. It covers the most common cases. It does not cover every case where you might have to pay CGT. You may need to find out more before you can be sure whether or not you have to pay CGT. We tell you on page 8 where you can find more information and help.

Capital Gains Tax (CGT)

CGT is a tax on capital gains. A gain is an increase in value. You normally only have to pay CGT when you no longer own an asset, that is when you have **disposed** of it.

If you sell an asset

Typically, you have made a gain if you sell an asset for more than you paid for it. It is the gain that is taxed, not the amount you receive. The following simple example shows you how this works.

Example 1

You bought some shares for £500.

You sell them for £2,000.

You have made a gain of £1,500 (£2,000 less £500).

If you give an asset away

If you give an asset away, you normally look at what it is worth, **not** what you get for it. The same is true when you sell it for less than its full worth in order to give away part of the value.

Example 2

Three years ago, you bought a flat costing £75,000 for your daughter to use.

The flat is now worth £100,000.

You now give it to your daughter.

She might not pay you anything for it, or you might let her have it for less than it is worth, say she pays you £60,000.

Either way, you have made a gain of £25,000 (£100,000 less £75,000).

If you dispose of an asset you had been given

You might dispose of an asset that you had received as a gift. When you work out the gain, you normally use the market value of the asset when you received it.

Example 3

Your sister gave you a garage worth £5,000.

You did not pay anything for it.

Later, you sell the garage for £8,000.

You are treated as making a gain of £3,000 (£8,000 less £5,000).

If you have inherited an asset

If you inherit an asset, the estate of the person who died does not pay CGT at that time. If you later dispose of the asset, you work out the gain by looking at the market value at the time of the death.

Example 4

Your brother had acquired some shares for £2,000.

When he died, he left them to you.

No CGT is payable at that time.

At the time of his death, the shares were worth £6,000.

Later, you sell them for £9,000.

You have made a gain of £3,000 (£9,000 less £6,000).

Some other cases where you might have to pay CGT

You may also have to pay CGT if you dispose of part of an asset or exchange one asset for another. In addition, CGT may be payable if you receive a capital sum of money from an asset without disposing of it, for example, if you receive compensation when an asset is damaged.

What if I transfer an asset to my husband or wife?

If you sell or give an asset to your husband or wife while you are legally married and living together, that does not give rise to a CGT charge.

If your husband or wife later sells the asset, he or she will work out the CGT at that time by looking at what you paid for the asset.

What if I give an asset to charity?

If you give an asset to a registered charity you will not have to pay CGT.

What assets might lead to a CGT charge?

Most sorts of assets can lead to a CGT charge when you dispose of them, for example

- shares in a company
- units in a unit trust
- land and buildings (but see 'What about my home?' below)
- higher value jewellery, paintings, antiques and other personal effects (see next section)
- assets used in a business, such as goodwill.

CGT is chargeable whether the assets are in the UK or abroad.

What assets do not lead to a CGT charge?

Some assets are exempt. For example, you will not have to pay CGT on

- your private car
- cash held in sterling
- any foreign currency held for your own or your family's personal use
- jewellery, paintings, antiques and other personal effects that are individually worth £6,000 or less (if you have a set - for example, a set of chess figures - you do not have to pay CGT if the value of the set as a whole is £6,000 or less)
- Savings Certificates, Premium Bonds and British Savings Bonds
- UK Government stocks ('Gilts')
- assets held in an Individual Savings Account (ISA) or Personal Equity Plan (PEP)
- betting, lottery or pools winnings
- personal injury compensation.

What about my home?

You will not have to pay CGT when you dispose of your home if all the following conditions are met.

- Throughout the period that you owned it, it was your only home.
- You did actually use it as your home all the time that you owned it.
- Throughout the period that you owned it, you did not use it for any purpose other than as a home for yourself, your family and no more than one lodger.

- The house and garden do not exceed 5,000 square metres (about one and a quarter acres - roughly the size of a football pitch).

Even if not all of these conditions are met, you may still be entitled to relief against all or part of the gain.

Shares and unit trusts

You may have bought or acquired in other ways shares or units in a particular company or unit trust on a number of different occasions and now dispose of some of them. If so, there are special rules for identifying which of the shares or units you have sold and for working out the gain.

Shares in the company where you work

You may have to pay CGT when you sell shares in the company where you work, but there are some special reliefs that may help you to keep your tax bill down.

How do I work out the CGT that has to be paid?

Start by listing all the assets that you have disposed of in the tax year (6 April to 5 April in the following year). You can ignore exempt assets and disposals that do not give rise to a CGT charge. You may be able to ignore the disposal of your own home, see page 4.

Work out the gain on each asset.

There are many reliefs available that reduce or defer CGT.
- Some reliefs are available to many people. For example, taper relief reduces the amount of a gain charged to tax the longer an asset has been held.
- Other reliefs are available only in special circumstances.
- You may deduct some of the costs of buying, selling and improving assets when working out your gain.
- If you have made a loss, you may be able to set that against your gains.

You can then add up the total of your gains less reliefs and allowable losses to calculate your net gains for the year.

If the total of your net gains in a tax year is less than a certain amount, called the annual exempt amount (AEA), you will not have to pay CGT. For the tax year 2004-2005 the AEA is £8,200.

If your net gains are more than the AEA you pay CGT on the excess.

When can I be sure that there is no CGT to pay?

If the total **value** of all the assets that you dispose of in a tax year (ignoring exempt assets) is less than the AEA, then you will not have to pay CGT on those assets.

If you know that the total of the **gains** on the assets that you dispose of (apart from exempt assets) is less than the AEA even before thinking about losses and reliefs, then you will not have to pay CGT on those gains. However, you may still have to show the gains on your tax return.

Even if you have not disposed of any assets during a tax year you may still have to pay CGT, for example, if the gains of a trust or company with which you have some connection are attributed to you.

Next steps

Unless you are sure that you do not have to pay CGT, you should ask for further information. The reliefs might mean that you do not have to pay any CGT this year.

If the only reason that you do not have to pay CGT is because you have deducted losses from your gains, you will need further information. This is because you can only use losses that arose in 1996-1997 or later if you have made a claim by notifying your Tax Office.

If you think that you might have losses that are greater than your gains for the year, then you should find out more about CGT. If you notify your Tax Office you may be able to use the losses to offset gains in a future year.

When to find out more about CGT

A good place to start is the Inland Revenue booklet CGT1 'Capital Gains Tax. An introduction'. It tells you more about

- when CGT may be payable
- what reliefs are available
- how to claim allowable losses
- when you might have trust or company gains attributed to you, and
- how to work out CGT.

It also tells you about the Helpsheets that are available and how to find out the latest AEA and CGT rates.

How do I report the disposals I have made and my gains?

When you have found out more, you may decide that you have to tell the Inland Revenue about your gains.

If you receive a tax return and have to fill in the capital gains pages, you should report your disposals and the gain or loss on each disposal by completing the capital gains pages of the return. If you were not sent these pages, you can ask for them from the Orderline. The tax return tells you the latest date for sending it back.

If you have not received a tax return and need to report gains or losses, you should contact your Tax Office. If you have gains to report you must give your Tax Office the details by 5 October following the tax year in which the gains arose.

Once you have reported your gains, you will be told how to pay any tax that is due.

Please remember that if you are late in sending in a tax return, if you do not tell your Tax Office about gains that should be included in a tax return, or if you do not pay CGT at the right time then you may face a penalty, interest and surcharges.

Further information

We produce a wide range of leaflets. Two we have mentioned which you might find useful are

CGT1 Capital gains tax. An introduction

COP1 Putting things right. How to complain.

Our leaflets are available at **www.inlandrevenue.gov.uk** and from any Inland Revenue Enquiry Centre. Most are open to the public from 8.30am to 5.00pm, Monday to Friday. Addresses are in your local phone book under 'Inland Revenue' and at **www.inlandrevenue.gov.uk/local**

You can get many leaflets from our Orderline by

- phone or textphone (for Minicom users) on **0845 9000 404** from 8.00am to 10.00pm, every day except Christmas Day, Boxing Day and New Year's Day
- fax on **0845 9000 604**
- completing the on-line order form at **www.inlandrevenue.gov.uk/contactus/staustellform.htm**
- writing to
  PO Box 37
  St Austell
  Cornwall
  PL25 5YN.

Orderline calls are charged at local rates.

Your library or Citizens Advice Bureau may also have copies of some of our leaflets, but may not have them all.

When our offices are closed, in the evening or at weekends, you can get general advice on Self Assessment by phoning our Helpline on **0845 9000 444**. The Helpline is open from 8.am to 8.pm every day except Christmas Day, Boxing Day and New Year's Day.

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

If you have comments on the contents of this leaflet or suggestions for how it could be made more useful, please let us know. Write to Capital Taxes Policy Group, New Wing, Somerset House, Strand, London WC2R 1LB.

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