

## CAPITAL GAINS TAX

The calculation of a capital gain is based on the difference between the proceeds from the sale of a capital asset and the initial cost or value of the asset. For assets held at 31 March 1982, the value at that date is used, rather than any earlier cost.

For 2018/19, the net gain is taxed at a fixed rate of 10% for those whose income and gains are below the basic rate tax band. The rate is 20% for any excess above the basic rate band limit. A surcharge of 8% applies to gains on the disposal of residential property and carried interest.

Disposing of an asset includes selling it and giving it away (or transferring it to someone else).

You don't usually pay tax on gifts to your husband, wife, civil partner or a charity.

Each individual is entitled to an annual exemption of £11,700. The annual exemption for trusts is £5,850.

## ENTREPRENEURS' RELIEF

Aside from the annual exemption, one of the major capital gains tax reliefs is entrepreneurs' relief. This applies a rate of tax of 10% to a qualifying gain.

The following disposals are covered:

1. All or a material part of a trading business an individual carries on alone or in partnership.
2. Assets, including goodwill and business premises used for the purposes of a business at the time the trade ceased.
3. Shares in the individual's 'personal' trading company (see below).
4. Assets owned by the individual and used by his 'personal' trading company or trading partnership, sold in an 'associated disposal'.
5. From 17 March 2016, gains on newly issued shares in unlisted companies (provided held for 3 years and subject to a separate £10m lifetime limit).

## ENTREPRENEURS' RELIEF

There is an overall 'lifetime' limit of £10m on gains to which this relief can apply.

A personal company is one in which the individual is an officer or employee and owns at least 5% of the shares.

There is a one year ownership qualification period but there are concessions for shares owned through the Enterprise Management Incentive scheme.

It is not an automatic relief but must be claimed, so it need not be used if gains would be wholly within the annual exemption.

Note that, unless the individual has ceased to carry on the business, a sale of assets that does not amount to a distinct part of the business does not qualify. Thus the sale of a few acres on a farm will not qualify, but the sale of one of two farms might.

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