

Tax explainer: Capital Gains Tax



Introduction

Capital Gains Tax (CGT) is a tax on the profit made when selling or disposing of an asset that has increased in value. The tax is only charged on the gain, not the total sale price, and applies to both individuals and businesses. Understanding CGT is essential for managing investments, property sales, and business assets.

When Does Capital Gains Tax Apply?

CGT applies to the sale of:

- Property (except your main residence)
- Shares and investments
- Business assets
- Personal belongings worth more than £6,000 (e.g., art, antiques)
- Exemptions to Capital Gains Tax
- Certain assets are exempt from CGT, including:
- Your primary residence (subject to certain conditions)
- Gifts to a spouse or civil partner
- Charitable donations
- Business assets eligible for Business Asset Disposal Relief

CGT Allowances

Each individual has a tax-free allowance for capital gains:

- The Annual Exempt Amount for the 2025/26 tax year is £6,000
- If your gains are below this amount, you won't pay CGT.
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Gains above the allowance are subject to tax.

CGT Rates

The tax rate depends on your total taxable income:

- Basic Rate Taxpayers (income up to £50,270): CGT is charged at 10% on the gain.
- Higher Rate and Additional Rate Taxpayers (income above £50,270): CGT is charged at 20%.
- Residential Property:
 - 18% for basic rate taxpayers
 - 28% for higher rate taxpayers

How CGT Is Calculated

CGT is calculated by subtracting the original cost of the asset from the sale price.

Certain costs can be deducted, such as:

- Purchase and sale costs (e.g., legal fees, agent fees)
- Improvements to the asset (e.g., property renovations)

The difference is the taxable gain.

Reporting and Paying Capital Gains Tax

CGT must be reported to HMRC if the total gains exceed the Annual Exempt Amount.

Ordinarily reporting and payment is done through Self-Assessment process.

For properties a separate return must be filed, and any tax paid, within 60 days of the date of exchange.

CGT on Property Sales

If you sell property that is not your main home, CGT may apply. If the property has been rented out or used for business purposes, CGT is likely. However, Private Residence Relief may apply if conditions are met.

Tips to Reduce CGT

- Use your allowance: Fully utilise your £6,000 Annual Exempt Amount.
- Offset losses: Offset losses on other assets against your gains.
- Gift assets: Gifts to your spouse or civil partner are exempt from CGT.
- Consider tax-efficient investments: Use ISAs or other tax-efficient schemes to reduce CGT.

Conclusion

CGT is an important consideration when disposing of assets, but planning ahead can help reduce the tax burden. Understanding the exemptions and tax rates is crucial. For tailored advice on managing CGT, contact Parry and Parry.