

## Capital Gains

Each tax year nearly everyone who is liable to Capital Gains Tax gets an annual tax-free allowance - known as the 'Annual Exempt Amount'. You only pay Capital Gains Tax if your overall gains for the tax year (after deducting any losses and applying any reliefs) are above this amount.

### Tax-free allowances for Capital Gains Tax

The annual tax-free allowance (known as the Annual Exempt Amount) allows you to make a certain amount of gains each year before you have to pay tax.

Nearly everyone who is liable to Capital Gains Tax gets this tax-free allowance.

There's one Annual Exempt Amount for:

- most individuals who live in the UK
- executors or personal representatives of a deceased person's estate
- trustees for disabled people

Most other trustees get a lower Annual Exempt Amount.

Annual Exempt Amounts			
Customer group	2009-10	2010-11	2011-12
<b>Individuals, personal representatives and trustees for disabled people</b>	£10,100	£10,100	£10,600
<b>Other trustees</b>	£5,050	£5,050	£5,300

Gains arising after 22 June 2010 may be charged at different rates. You can use your Annual Exempt Amount against the gains charged at the highest rates to minimise the tax you owe. See the section on 'Rates for Capital Gains Tax' below for an example.

### **Executors and personal representatives**

If you're acting as an executor or personal representative for a deceased person's estate, you may get the full Annual Exempt Amount during the 'administration period'. The administration period is usually the time it takes to settle the deceased person's affairs and get a grant of probate (or confirmation in Scotland).

You're entitled to the Annual Exempt Amount for the tax year in which the death occurred and the following two tax years. After that there's no tax-free allowance against gains during the administration period.

### **Trustees for disabled people**

If you're acting as a trustee for a disabled person you use the higher Annual Exempt Amount above - and not the rate for 'other trustees'.

A disabled person in this context is a person who has mental health problems or receives the middle or higher rate of Attendance Allowance or Disability Living Allowance.

### **People who are 'non-domiciled' in the UK**

You won't get the Annual Exempt Amount if you're 'non-domiciled' in the UK and you've claimed the 'remittance basis' of taxation on your foreign income and gains.

You may be 'non-domiciled' in the UK, for example, if you were born in another country and intend to return there.

You may have claimed the 'remittance basis' if you have income and gains from abroad and have decided that it's beneficial to be taxed on the foreign income and gains that you bring into the UK, rather than on all income and gains that arise.

Issues of domicile and tax on foreign gains are complicated. A lot depends on the facts of each case. You can find out more by following the link below. Or speak to your Tax Office about your specific circumstances.

## Rates for Capital Gains Tax

### **2010-11 and 2011-12**

For gains on or before 22 June 2010, Capital Gains Tax is charged at a flat rate of 18 per cent. The following Capital Gains Tax rates apply to gains after this date:

- 18 per cent and 28 per cent tax rates for individuals (the tax rate you use depends on the total amount of your taxable income, so you need to work this out first )
- 28 per cent for trustees or for personal representatives of someone who has died
- 10 per cent for gains qualifying for Entrepreneurs' Relief

If you're not sure how to work out your taxable income, see the examples in the section below 'Working out your Capital Gains Tax for 2010-11'.

### **2009-10 and 2008-09**

Capital Gains Tax is charged at a flat rate of 18 per cent

### **2007-08**

For individuals Capital Gains Tax is charged at variable rates (10 per cent, 20 per cent and 40 per cent) based on the total amount of your income and gains. For trustees or personal representatives of someone who has died there is a single rate of 40 per cent.

## Working out your Capital Gains Tax for 2010-11

### **Gains before 23 June 2010**

For gains on or before 22 June 2010, Capital Gains Tax is charged at a flat rate of 18 per cent.

### **Gains on or after 23 June 2010**

For gain on or before 22 June 2010, Capital Gains Tax is charged at a flat rate of 18 per cent.

For gains on or after 23 June 2010, individuals need to work out their total taxable income before working out which Capital Gains Tax rate to use.

1. First work out your taxable income by deducting any tax-free allowances and reliefs that you are entitled to.
2. Next see how much of your basic rate band is already being used against your taxable income. The basic rate band for 2010-11 is £37,400.
3. Allocate any remaining basic rate band first against gains that qualify for Entrepreneurs' Relief - these are charged at 10 per cent.
4. Next allocate any remaining basic rate band against your other gains, these are charged at 18 per cent.
5. Any remaining gains above the basic rate band are charged at 28 per cent.

## Using your Annual Exempt Amount

If you have gains which are charged at different rates, you need to decide how to use your Annual Exempt Amount. You use it against the gains charged at the highest rates to minimise the tax you owe.

### **Example one - a simple example**

Mr P's total income, after deducting allowances and reliefs, is £20,000 and his capital gains, after reliefs, are £15,000.

The basic rate band is £37,400. Mr P has used £20,000 of this amount against his income - so has £17,400 remaining.

As his gains are only £15,000, he has enough of the basic rate band remaining to cover his gains, so they are all to be taxed at 18 per cent. He now deducts his tax-free allowance of £10,100 and pays Capital Gains Tax at 18 per cent on £4,900.

### **Example two - Annual Exempt Amount**

Miss W's total income, after deducting allowances and reliefs is £60,000. In May 2010 she made a first gain of £5,000. This is taxable at 18 per cent. Her second gain in February 2011 of £12,100 is taxable at 28 per cent. Miss W uses her Annual Exempt Amount of £10,100 against the second gain after 22 June 2010 and pays tax on the remaining £2,000 at 28 per cent. She pays tax at 18 per cent on the first gain of £5,000 before 23 June 2010.

### **Example three - Entrepreneurs' Relief**

Mrs T's total income, after deducting allowances and reliefs, is £30,000 and her capital gains, after reliefs, are £20,000. £5,000 of these gains qualify for Entrepreneurs' Relief.

The basic rate band is £37,400. Mrs T has used £30,000 of this amount against her income - so has £7,400 remaining.

She has to allocate £5,000 against the gains that qualify for Entrepreneurs' Relief, and pays tax on these at 10 per cent.

She allocates the remaining £2,400 basic rate band against her other gains, so these are taxed at 18 per cent.

Her tax-free allowance of £10,100 is allocated to her remaining £12,600 gains. This leaves £2,500 gains taxed at 28 per cent.