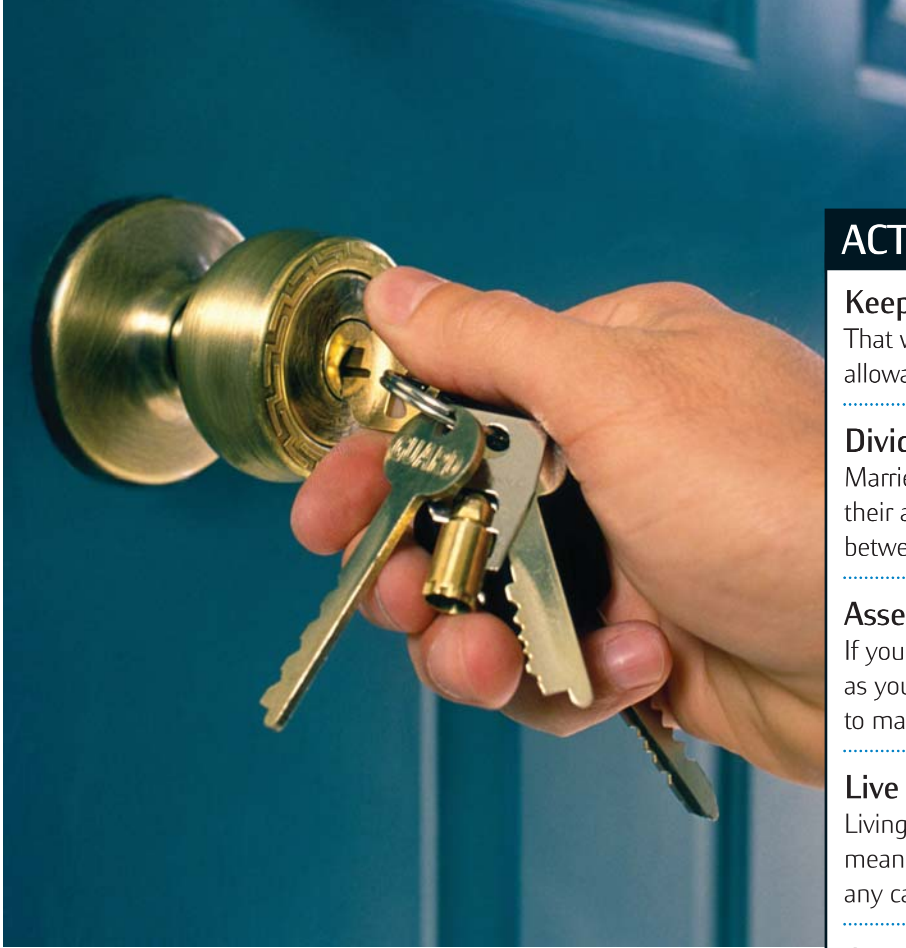

ALAMY

ACTION POINTS

Keep good records
That way you'll be able to claim all the available allowances and reliefs.

Divide your assets
Married couples and civil partners can maximise their allowances by dividing their assets between them.

Assess the value of your homes
If you own more than one home, nominate as your main home the one on which you expect to make the largest gain.

Live in property you rent out
Living in property that you rent out for a while means you can claim reliefs to reduce or eliminate any capital gains tax (CGT).

Capitalise on CGT-free investments
Isas, Peps, pensions, and 'chattels' (antiques, collectibles and so on) worth up to £6,000 don't count for capital gains tax purposes.

Capital gains tax

The key to keeping your tax bill down when you sell or give things away

Capital gains tax (CGT) is a tax on the increase in the value of something during the time you have owned it. You pay any tax that's due when you dispose of it.

HOW YOU PAY

Everyone has a tax-free allowance of £8,800 in 2006-2007 (£8,500 in 2005-2006) to set against gains from selling or giving away possessions and investments. So provided you don't go over that limit, you won't have to pay capital gains tax. Some gains are tax-free anyway (see p50).

But you can easily go over the limit if you dispose of a big item, such as a second home or buy-to-let property. Starting on p51, we tell you which allowances and reliefs will help you keep the tax bill down.

WORKING OUT YOUR TAX

Generally, CGT applies only to gains, or losses, made since 31 March 1982. It's paid on almost all assets and transactions unless they are tax-free. Your taxable gains are treated as the final slice of your income. They are added to your other taxable income and taxed at one of three rates depending on which tax band the gain falls into after all other income has been taken into account (see the example, on p6.) For 2006-2007, if your taxable income and gains are below £2,150, you are taxed at 10 per cent; if they are between £2,151 and £33,300, you are taxed at 20 per cent; and if above £33,300, at 40 per cent. For the 2005-2006 bands, see p6.

Where you dispose of an asset held on 31 March 1982, you generally use its market value on that date to work out the gain (or loss) and ignore expenses incurred before then. For exceptions, see HMRC helpsheet IR280.

CGT ON YOUR HOME

Private residence relief (PRR) means you don't normally have to pay CGT on gains you make when selling your only or main home. But all or part of any gain will usually be taxable if:

- you bought or improved the home wholly or partly for the purpose of making a profit
- you develop your home – by converting part into self-contained flats or building a second home in your garden, for example
- you live away. But the following absences do qualify for PRR: periods totalling no more than three years and absences connected with work, provided you use the home as your main home at some stage both

Warning

If you regularly buy and sell items (a series of homes you do up, say, or frequent deals on sites such as Ebay), Revenue & Customs may say you are trading and should pay income tax as a self-employed person (see p21) instead of CGT.

before and after each absence; periods between leaving the home and transferring your share to your spouse or civil partner on separation or divorce; delays up to one year (or, exceptionally, two) before you can move in; the last three years of ownership
- you use part of your home solely for business
- you sell part of your garden and your plot, including the house, is over half a hectare (1.2 acres)
- you let all or part of your home – but see 'Letting your home', below.

Letting your home

You don't lose PRR if you have one lodger who shares your living rooms and eats with you; otherwise, part of any gain when you sell property you let out may be taxed. You may be able to reduce any gain by claiming up to £40,000 letting relief but this is not available on a property that has never been your main home. See HMRC helpsheet IR283.

More than one home

If you use more than one home, you can nominate which one qualifies for PRR. Unlike married and registered civil couples, unmarried partners can each nominate a different property as their main home. You must notify your tax office of your choice within two years of getting a further home. You don't have to choose the one where you live most of the time – generally, it makes sense to select the one on which you think you'll make the largest gain. You can change your choice at any time and backdate the change up to two years. If you don't nominate, Revenue & Customs decides on the facts.

TAX RETURN

If you receive a tax return (other than the short version – see p60), you'll need the capital gains pages (SA108) if:
- your disposals of chargeable assets during 2005-2006 were worth £34,000 or more, or
- you made losses and your gains before losses and taper relief (see p51) were £8,500 or more, or
- you made no losses and your gains after taper relief were £8,500 or more, or
- you are making any CGT claim or election.

There's no space on the short tax return for capital gains – you need form R40(CG). If you don't receive a tax return, you have to notify Revenue & Customs only if you have capital gains on which tax is due.

TAX-FREE GAINS AT A GLANCE

The main disposals that are free of CGT, subject to certain conditions, are:
- your only or main home (but see p49)
- gifts between husband and wife or between registered civil partners. (There is no tax at the time the gift is made but any gain passes to the new owner and may be taxed on a later disposal)
- gifts to charities
- private motor cars
- personal possessions with a useful life of 50 years or less from the date you acquired them. For possessions with a longer life, see 'CGT and possessions', below
- betting, lottery or pools winnings
- National Savings & Investments products, Peps, Isas and pensions
- proceeds from life insurance policies, unless they're bought second-hand
- shares held in an approved share incentive plan
- British government stocks (gilts), most corporate and local authority bonds and building society permanent interest-bearing shares (PIBS)
- shares in schemes to encourage investment in new and growing businesses
- 'cashbacks' when you buy something
- personal injury compensation.

CGT AND POSSESSIONS

Possessions such as paintings, antiques and collectibles are called chattels. Gains on those with a useful life of 50 years or less at the time you acquired them are tax-free. CGT applies to other chattels only if their final value exceeds £6,000, in which case the chargeable gain cannot exceed 5/3rds of the excess. These rules apply to a disposal of a single chattel. If you sell a set (of chairs, say), the £6,000 limit applies to the set, not each item. See HMRC helpsheet IR293.

SHARES AND UNIT TRUSTS

Shares and unit trusts are liable to CGT in the normal way but some extra rules apply.

Incentives to invest

- There is no CGT on shares or units held in an Isa, Pep or pension.
- Subject to conditions, there is no CGT on a venture capital trust or shares held at least three years in an enterprise investment scheme.
- You can put off paying some or all CGT on the disposal of any asset if you reinvest in an enterprise investment scheme.
- Shares in an unlisted trading company and employee shares may qualify for increased taper relief (see opposite) as business assets.

Identical shares and units

If you acquire shares of the same type in the same company (or units in the same unit trust or Oeic) but at different times, Revenue & Customs assumes you dispose of your shares in a strict order. To work out how much tax you will pay, see HMRC helpsheet IR284.

Scrip dividends

Scrip dividends (that is, dividends paid as shares rather than cash) are treated as newly acquired at the dividend date. The dividend voucher usually shows their initial value.

Rights issues, takeovers and mergers

Extra shares you receive under rights or bonus issues usually count as belonging to the same holding as the original shares. Anything paid for the new shares is added to the cost of the original holding. Exchanging shares for new shares on a takeover or merger won't normally count as a disposal, provided the new company issues replacement shares direct to shareholders (see 'Shell shock', below). If you exchange old shares for new shares and cash, you are assumed to have disposed of a proportion of your old shares unless the cash sum is small. The prospectus usually gives details of the tax treatment. See HMRC helpsheet IR285 for more details.

SHELL SHOCK

An estimated 1,700 UK holders of Royal Dutch Petroleum shares were caught out when the company merged with Shell in 2005 to form a consolidated company, Royal Dutch Shell. The new shares were first issued to a holding company rather than direct to shareholders. As a result, shareholders who accepted the offer were treated as having disposed of the old shares – in many cases triggering a large CGT bill. Holders who refused the offer were then offered an alternative, more tax-efficient arrangement. UK holders of Shell shares were not affected as no holding company was used.

£ SAVING ON YOUR CGT BILL

The following allowances and reliefs may reduce a potential CGT bill

There are four main ways to reduce a potential CGT bill.

INDEXATION ALLOWANCE

Indexation allowance applies to assets acquired before 1 April 1998. It means you are not taxed on gains due simply to inflation between the date you acquired the assets (or March 1982 if later) and April 1998. You can deduct an allowance equal to the initial value and any allowable expenses multiplied by the relevant change in the retail price index (RPI) – see table below. But you cannot use indexation allowance to create or increase a loss.

LOSSES

You must offset any loss on the disposal of an asset against any gains you make in the same year. (But you can't offset losses from Isas, peps or pensions.) If, after using your current-year losses, you still have gains above the tax-free allowance, you must use any losses brought forward from previous years to reduce your gains to the level of the allowance. Losses are allocated first to gains that qualify for the least amount of taper relief (see 'Taper relief', below).

You can carry forward indefinitely any losses you don't use up by notifying Revenue & Customs either on the CGT pages of your tax return or by letter. Do this by 31 January 2012 for losses made in the 2005-2006 tax year.

There is no time limit for notifying the Revenue & Customs about losses made before 6 April 1996 but you need records to back up your calculations.

TAPER RELIEF

Taper relief reduces any remaining chargeable gain depending upon the length of the time you've owned the asset, excluding periods before 6 April 1998. Broadly, the longer you hold it, the less of the gain that is taxed (see 'How taper relief works', p52). Taper relief is highest on business assets. If an asset has been both a business and non-business asset, the gain is split between the two taper relief rates. See HMRC helpsheet IR279.

> **TIP**
>
> Husbands and wives and civil partners each have a CGT allowance. By transferring an asset into your joint names, up to £17,600 of any gain can be tax-free in 2006-2007.

You must own a non-business asset for at least three whole years, and a business asset for at least one whole year, before taper relief reduces your tax bill. However, non-business assets held since before 17 March 1998 have an extra year added to the period of ownership. For the purpose of taper relief, a business asset is:

- an asset you own used by you in your trade or, since 6 April 2004, by someone else in theirs
- an asset owned by you as an employee or director of a trading business for use at work
- shares or securities you

INDEXATION FACTORS

Bob bought a painting for £10,000 in May 1985 and sold it in May 2000 for £19,000. To find the indexation allowance, he multiplies £10,000 by 0.708 (May 1985 factor) – £7,080. To find his taxable gain, Bob deducts £10,000 and £7,080 from the selling price.

Month	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Jan		0.968	0.872	0.783	0.689	0.626	0.574	0.465	0.361	0.249	0.199	0.179	0.151	0.114	0.083	0.053	0.019
Feb		0.960	0.865	0.769	0.683	0.620	0.568	0.454	0.353	0.242	0.193	0.171	0.144	0.107	0.078	0.049	0.014
Mar	1.047	0.956	0.859	0.752	0.681	0.616	0.562	0.448	0.339	0.237	0.189	0.167	0.141	0.102	0.073	0.046	0.011
Apr	1.006	0.929	0.834	0.716	0.665	0.597	0.537	0.423	0.300	0.222	0.171	0.156	0.128	0.091	0.066	0.040	
May	0.992	0.921	0.828	0.708	0.662	0.596	0.531	0.414	0.288	0.218	0.167	0.152	0.124	0.087	0.063	0.036	
June	0.987	0.917	0.823	0.704	0.663	0.596	0.525	0.409	0.283	0.213	0.167	0.153	0.124	0.085	0.063	0.032	
July	0.986	0.906	0.825	0.707	0.667	0.597	0.524	0.408	0.282	0.215	0.171	0.156	0.129	0.091	0.067	0.032	
Aug	0.985	0.898	0.808	0.703	0.662	0.593	0.507	0.404	0.269	0.213	0.171	0.151	0.124	0.085	0.062	0.026	
Sept	0.987	0.889	0.804	0.704	0.654	0.588	0.500	0.395	0.258	0.208	0.166	0.146	0.121	0.080	0.057	0.021	
Oct	0.977	0.883	0.793	0.701	0.652	0.580	0.485	0.384	0.248	0.204	0.162	0.147	0.120	0.085	0.057	0.019	
Nov	0.967	0.876	0.788	0.695	0.638	0.573	0.478	0.372	0.251	0.199	0.164	0.148	0.119	0.085	0.057	0.019	
Dec	0.971	0.871	0.789	0.693	0.632	0.574	0.474	0.369	0.252	0.198	0.168	0.146	0.114	0.079	0.053	0.016	

own in a qualifying company. This includes shares in unlisted trading companies (including those quoted on AIM – the Alternative Investment Market) and employee shares if your employer is a listed trading company.

For details, see HMRC helpsheet IR279 *Taper relief*.

TAX-FREE ALLOWANCE

The first slice of gains you make each year is tax-free. In 2006-2007 the tax-free allowance is £8,800 (£8,500 in 2005-2006). Husbands, wives and civil partners each have their own allowance, so by transferring assets into your joint names, up to £17,600 (£17,000 in 2005-2006) of gains will be tax-free.

TIP

Our calculator will help you work out your CGT bill for 2005-2006. Go to www.which.co.uk or call 0845 307 4000 for a free copy (quote code TAXC06).

HOW TAPER RELIEF WORKS

Bob bought a non-business asset (shares) in 1993 and sold it in September 2005. After deducting indexation allowance up to April 1998 and any allowable losses, he made a profit of £1,404. This is how taper relief applies.

Bob's net gain	**£1,404**
Complete number of years held after 5 April 1998 (including extra year as asset was held before 17 March 1998)	8 years
Percentage of gain chargeable for non-business assets (with qualifying period of eight years)	70%
Net chargeable gain is 70 per cent of £1,404	**£982**

If Bob had used up his capital gains tax-free slice, he'd pay £98.20 capital gains tax on this gain if the gain fell into the starting-rate band; £196.40 if in the basic-rate band; and £392.80 if it fell into the higher-rate band. This is equivalent to paying capital gains tax at 14 per cent for basic-rate taxpayers (28 per cent for higher-rate taxpayers) on the original gain of £1,404.

	Gains on business assets		Gains on non-business assets	
Complete years after 5 April 1998 that asset was held	Percentage of the gain that is chargeable – the taper (%)	Equivalent CGT rate for higher-rate/basic-rate taxpayers 40/20% of the taper	Percentage of the gain that is chargeable – the taper (%)	Equivalent CGT rate for higher-rate/basic-rate taxpayers 40/20% of the taper
0	100	40/20	100	40/20
1	50	20/10	100	40/20
2	25	10/5	100	40/20
3	25	10/5	95	38/19
4	25	10/5	90	36/18
5	25	10/5	85	34/17
6	25	10/5	80	32/16
7	25	10/5	75	30/15
8	25	10/5	70	28/14
9	25	10/5	65	26/13
10	25	10/5	60	24/12

WORKING OUT YOUR CGT BILL

The gain on which you pay tax shrinks as you deduct each allowance and relief.

STEP 1 Ignore tax-free gains – see p50.

STEP 2 Generally, ignore periods of ownership and so gains up to 31 March 1982.

STEP 3 Find the final value – the asset's price or market value at the time you sell it or give it away.

STEP 4 Find the initial value – the asset's price or market value when you first started to own it or its market value on 31 March 1982. Subtract the initial value from the final value.

STEP 5 Deduct any allowable expenses – costs of: buying and selling (eg commission, legal fees, stamp duty), improvements, defending title to the asset. What's left is your chargeable gain.

STEP 6 Deduct indexation allowance – see p51.

STEP 7 Deduct losses on other assets – see p51.

STEP 8 Deduct taper relief – see p51.

STEP 9 Add up gains from STEP 8 for the year and deduct tax-free allowance. The amount left is your taxable gain

Your taxable gain is treated as the final slice of your income – see 'Working out your tax', p49.

MORE HELP

HMRC helpsheets and booklets

- CGT1 Capital gains tax: an introduction
- IR279 Taper relief
- IR280 Rebasing – assets held at 31 March 1982
- IR283 Private residence relief
- IR284 Shares and CGT
- IR285 Share reorganisations and takeovers
- IR287 Employee share schemes
- IR293 Chattels and CGT
- IR297 Enterprise Investment Scheme and CGT
- IR298 Venture Capital Trusts and CGT