Capital gains tax: a practical guide

Understand CGT allowances, how gains are calculated and approaches to planning efficiently.

Capital gains tax, or CGT, is charged on the profit made when certain assets are sold or otherwise disposed of. It catches out people who have done nothing wrong and simply did not realise the sale triggered a tax charge. Understanding the basics in advance is far less painful than discovering them afterwards.

A gain is the difference between what you paid for an asset and what you receive for it, after allowing for certain costs. Costs of acquisition, costs of improvement and costs of disposal can all be relevant. What you paid for something years ago matters, which is why keeping records matters even when the paperwork feels unimportant at the time.

Not everything is taxable. Your main home may qualify for relief in many circumstances, though this is not automatic and depends on how it has been used. Certain investments held in tax-advantaged wrappers are outside CGT. Gifts to charity and gifts between spouses or civil partners are generally treated differently from sales. Each of these has conditions attached.

An annual allowance means a certain amount of gain in a tax year can be realised without tax being due. That allowance has been reduced in recent years, so the room available is smaller than many people assume. Where gains exceed the allowance, tax may be due at a rate that depends on your other income.

In practice, planning often comes down to timing and to spreading gains. Realising gains across more than one tax year, where the asset can sensibly be sold in stages, can make use of more than one annual allowance. Selling in a year when you have less other income may also affect the rate at which any gain is taxed. These are general observations, not a template, because what is sensible depends on the asset and on you.

Losses are part of the picture. Losses can generally be offset against gains in the same tax year, and certain unused losses can be carried forward if they are registered in time. People frequently forget to record losses, and then find they cannot use them later.

Reporting matters as much as calculation. There are deadlines for telling HMRC about certain disposals and for paying any tax due, and some of these deadlines run from the date of disposal rather than from the tax return date. Missing them can lead to interest and penalties that were entirely avoidable.

For people who own a business, the position is more involved again, and reliefs may or may not apply depending on how shares are held and what the company does. For property, the rules differ

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between residential and commercial and have changed several times. In both cases, this is where general information stops being useful and specific advice begins.

Tax rules, rates and allowances change, and individual circumstances vary. This guide is general information rather than advice on your own position.

Important information

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Investments and the income from them may go down as well as up and you may get back less than the amount invested. Past performance cannot be used as a reliable prediction of future performance.

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