

Capital Gains Tax 2008/09

A **ShareScope** Guide



Foreword

ShareScope calculates CGT in accordance with current legislation. This document is intended as a guide to help you understand more about how our calculator works and has been updated to reflect the changes that come into effect from the 2008/09 tax year.

Should you be interested in more detail in Capital Gains Tax, we would recommend either of the CGT guides by Tolley Publishing Company Ltd or Tottel Publishing Ltd.

Capital Gains Tax (CGT)

Capital Gains Tax was introduced in 1965. It is charged on gains made on capital assets when you sell or dispose of them. If when you sell or give away an asset it has increased in value, you may have to pay tax on the 'gain' (profit).

You don't have to pay CGT on:

your car

your main home - provided certain conditions are met

ISAs or PEPs

UK Government gilts (bonds)

personal belongings worth £6,000 or less when you sell them

betting, lottery or pools winnings

money which forms part of your income for income tax purposes

Capital Gains Tax (CGT)

These are some points to bear in mind:

if you are **married** or in a **civil partnership** and living together you can **transfer assets** to your husband, wife or civil partner **without having to pay CGT**

you **can't give assets** to your children or others or sell the assets cheaply **without having to consider CGT**

if you **make a loss** you may be able to **make a claim for that loss** and deduct it from other gains, but **only if the asset normally attracts CGT** - for example you cannot set a loss on selling your car against gains from disposing of other assets (*see previous re no CGT on car*)

if someone **dies** and leaves their belongings to their beneficiaries, **there is no CGT** to pay at that time - however if an asset is **later disposed of by a beneficiary**, any **CGT they may have to pay** will be based on the **difference between the market value at the time of death and the value at the time of disposal**

How CGT is worked out

CGT is worked out for each tax year (which runs from 6 April one year to 5 April the following year). It is charged on the total of your taxable gains, after taking into account:

allowable losses you have made on assets to which CGT normally applies

the annual exempt (tax-free) amount (the AEA) - this is £9,600 for every individual in the 2008-2009 tax year

CGT Rate & Changes

From 6 April 2008 individuals will now pay a flat rate of 18% on their gains.

The other main changes effective from 6 April 2008 for individuals are:

- Taper relief abolished

- Indexation relief withdrawn

- Kink test abolished (applies to shares held on 31 March 1982)

- Shares of the same class from the same company are treated as a single pooled asset regardless of when they were acquired (*for exceptions see 'Identification Rules'*)

From 1988/89 to 2007/08 the gains were charged at an amount dependent on the individuals annual income.

Identification Rules

When shares are sold the gain is calculated from the cost of purchasing the shares.

Shares sold are matched or identified with purchases in the following order:

- 1) Any shares bought in the same company on the same day as the sale
- 2) Any shares bought in the same company up to 30 days after the sale, on a first-in, first-out basis [FIFO] (using earlier buys first before later ones)
- 3) All other shares from within the pool

Shares held on 31 March 1982, including those purchased before 6 April 1965, need to be rebased to their market value as of 31 March 1982. In ShareScope you can enter the 1982 value directly on each transaction.

Bed & Breakfasting (B&B) is now not possible due to rule 2) being introduced in March 1998. It used to be a common practice involving selling a share one day and buying back the next day (normally at an agreed price) to establish a capital gain or loss.

Identification Rules

Example

Mr Smith owns 10,000 shares

500 were purchased on 1 September 2008 at a cost of £1500

2,500 were purchased on 1 May 1998 at a cost of £3000

7,000 were held as at 31 March 1982 with a value of £6000

His total holding is pooled resulting in 10,000 shares at a cost of £10,500.

The following examples show how CGT is calculated if:

- 1) Mr Smith sells 4,000 shares on 1 December 2008 for £14,000
- 2) Mr Smith sells 4,000 shares on 11 August 2008 for £14,000

Identification Rules

Example 1

Mr Smith sells 4,000 shares on 1 December 2008 for £14,000

1/12/08	Sold 4,000 shares at £3.50 minus £0.00 costs	£14,000.00	
	Pool at start: 10,000 shares, cost £10,500.00		
	Identify 4,000 shares with pool		
	Cost of 4,000 shares (average cost £1.0500)	£ 4,200.00	
	Gain	£ 9,800.00	
	Pool: 6,000 shares, cost £6,300.00		
	Chargeable gain at 18% for 2008/09		£9,800.00

Identification Rules

Example 2

Mr Smith sells 4,000 shares on 11 August 2008 for £14,000

11/08/08	Sold 4,000 shares at £3.50 minus £0.00 costs	£14,000.00
	Match 2,500 shares sale and purchase within 30 days 1/9/08	
	Sale value of 2,500 shares ($£14,000.00 \times 2500 / 4000$)	£ 8,750.00
	Cost of 2,500 shares ($£3,000.00 \times 2500 / 2500$)	£ 3,000.00
	Gain	£ 5,750.00
	Pool at start: 7,500 shares, cost £7,520.00	
	Identify 1,500 shares with pool	
	Sale value of 1,500 shares ($£14,000.00 \times 1500 / 4000$)	£ 5,250.00
	Cost of 1,500 shares (average cost £1.0027)	£ 1,504.00
	Gain	£ 3,746.00
	Pool: 6,000 shares, cost £6,016.00	
	Chargeable gain at 18% for 2008/09	£9,496.00

Offsetting Losses

If you make a loss on your shareholding you can use the loss to offset any gains over the Annual Exemption Amount (AEA) that you may make (the AEA for 2008/09 is £9,600).

Any losses made in a year are used to offset gains made in the same year. If your gains are less than the AEA or less than the losses made, then any remaining losses can be carried forward to the next tax year.

Losses are not set against specific sales – they are pooled together and deducted from the total gain.

For the purpose of creating a report in ShareScope, the pooled losses are offset against the largest gain first down to the smallest gain.