Capital Gains Tax May Increase

July 2020

The news that the Chancellor has asked for capital gains tax (CGT) to be reviewed is not surprising, given that the top rate payable on capital gains is currently 20% on gains made on investments, such as shares or investment trusts, and 28% on residential property which is not a main residence.

In many ways capital gains tax is a voluntary tax for the private investor. Generous allowances and reliefs mean that, with simple planning, gains can be made with no tax or a lower liability arising.

Each person has a gains allowance per tax year, this is currently £12,300 and only when gains, net of losses made in the same or previous years, are realized, is any tax payable. Selling or gifting an investment or asset triggers the capital gains charge. If not used that year's allowance is lost.

Doubling Up The Tax Free Allowance

Married couples and civil partners can give investments to each other with no charge to tax. This effectively doubles the tax-free allowance available for the couple. If they gift part of the investment to their spouse or civil partner, prior to sale, tax will only be payable on net gains over £24,600. The spouse/civil partner receiving the gift will inherit the gain made to date.

The taxable gain is then added to the individual's income and if the total is below £50,000, they will pay 10% tax or 20% if over £50,000 and a pro rata rate where the income and gain straddles the £50,000 threshold. (For non- main residence residential property these tax rates increase to 18% and 28% respectively).

Future Changes?

The Government review may mean that the allowances are reduced and/ or the rate of tax increases, so those with taxable investments should consider realizing gains and losses made

to date in order to take advantage of the current rules. While shorter term investments may be presenting a loss, longer term investments are likely to remain in positive territory. Even after recent market dips the FTSE 100 is still 60% higher than the post financial crash lows.

Where the taxable portfolio is substantial realizing gains and losses each year, within the exempt allowance can eliminate or reduce the charge to tax. To utilize the exempt allowance of each individual it is important to follow these steps: -

- The investment must be gifted without any conditions attached.
- Losses realized can only be offset against gains where they are realized in the same tax year or an earlier tax year.
- The same investment cannot be bought back until 30 days after the initial sale.

This rule prevents "bed and breakfasting "investments for short periods and so involves some out of market risk if the investor wishes to retain that particular investment long term. This can be resolved by Bed and ISA where the investment is bought back within a tax -exempt Individual Savings Account wrapper into which up to £20,000 can be invested each tax year for over 18s and £9,000 for minors.

If no ISA allowance is available it may be possible to select a similar investment, for example, selling shares in one energy provider and buying those of another, or a collective investment fund with a similar asset mix and management style to the one you sold.

Utilizing the annual allowance for capital gains tax will save a basic rate taxpayer whose taxable gains fall fully within the basic rate band £1,230 and a higher or top rate taxpayer £2,460 per tax year but if rates increase or allowances reduce, the potential tax savings of acting sooner could be greater.

While raising taxes is one way to repay Government borrowing, those who have saved from income which has already been taxed may feel that any increase in capital gains tax would be unreasonable. There is also an argument that business needs investment and a harsher tax regime could see capital inflows become more dependent on foreign wealth funds with all the political considerations which that brings. However, for those with capital gains and unused tax allowances the message is use it or lose it.

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