Capital Gains Tax – An Overview

Capital Gains Tax is a tax on the profit or gain you make when you sell, give away, exchange or otherwise dispose of all or part of a business asset, owned by yourself or by your business partnership.

Business assets are assets that are related to trading or to your business in some way and typical business assets can include the following:

- Land and buildings used as business premises, for example a shop, factory or workshop. Fixtures and fittings, for example shelves, a counter in a shop; plant and machinery, for example a computer or digger
- Goodwill, for example the good name or reputation of a business that it's built up over the years it's been operating (this can have a financial value)
- Shares, for example in a personal company
- Registered trade marks

You usually dispose of an asset when you cease to own it. Examples to highlight this are the following:

- sell it or give it away as a gift
- transfer it to someone else or exchange it for something else
- receive compensation for it - for example if you receive an insurance payout when an asset's been destroyed.

You are taxed on the gain you make and not the amount of money you receive for the asset. Most assets are liable to Capital Gains Tax when you sell or dispose of them and that's whether they're in the UK or overseas. However, some assets are exempt, such as your car, personal possessions disposed of for £6,000 or less and, usually, your main home.

When you sell or dispose of an asset, you need to work out the gain or loss on each asset separately. You should include any allowable costs associated with acquiring or disposing of the asset and apply any tax reliefs. You then bring all the individual gains and losses together to work out the overall gain or loss for the tax year and the amount of tax due. If you've got unused losses from earlier years - and have claimed them in time - you may be able to deduct them too.

You have an annual tax-free allowance for Capital Gains Tax known as the 'Annual Exempt Amount', which for the tax year 2010-11 was £10,100 for each individual and £5,050 for most trustees. For 2011-12 the Annual Exempt Amount is £10,600 for each individual and £5,300 for most trustees.

You only have to pay Capital Gains Tax if you have overall gains above the annual tax-free allowance and then only on the excess, but if your overall gains are below the Annual Exempt Amount, you won't pay any Capital Gains Tax.

If you want to find out more about Capital Gains Tax, contact one of the team who will be happy to help.

Source: www.hmrc.gov.uk