Capital gains tax

Ordinarily, each person is entitled to make a total tax-free gain of up to £11,100 (or up to £5,550 for trusts). After this gains are taxed at a rate that is income-dependent.

Where taxable income is less than £32,001 the capital gains tax rate for gains up to the spare basic rate band allowance is 10%. Thereafter, this rises to 20%.

A higher rate of capital gains tax applies to residential property and carried interest which are taxed at a rate of 18% and 28%. The rate applicable to a trust is 20%, with the exception of the aforementioned residential property and carried interest.

For business owners entrepreneurs' relief gives rise to a lower rate of 10% for qualifying gains which provides for a maximum reduction in tax of £1 million (if the gain were £10 million, the current upper lifetime limit).

Planning

- Married couples and civil partners each have an £11,100 exemption. What tax can be saved by maximising the advantage of family member tax-free exemptions?
- Should an asset that is going to be sold in the future be transferred into joint names?
- If a gain is going to be realised are there other assets which are standing at a capital loss that can be used to reduce the quantum of your gains?
- If tax is due, are there ways of deferring or rolling over the gain?
- If you have substantial assets outside of an ISA could you arrange them to create tax-free income?
- Have you reviewed your buy-to-let portfolio to explore how you can reduce your tax liability from property income?
- Would it be beneficial to incorporate buy-to-let properties into a company?
- If you have 2 properties that you have used as a home, have you considered if your main residence election is on the property with the largest gain?

Tax credits

Individuals on low incomes may be eligible to claim tax credits or the universal credit. The calculations for these benefits involve determining 3 figures: your maximum benefit, your net income and your allowance.

The maximum benefit is the amount you would receive if you had no income at all. As some income is disregarded, it is possible that someone could receive the maximum benefit even if they have a small income.

Net income is usually earnings after tax, national insurance and pension contributions. If you have capital above a threshold this may require a notional income to be added.

The allowances are the maximum amount of income you may earn and still receive the maximum benefit. If your income is above this figure, a percentage of the excess is deducted from the maximum benefit.

Planning

Check to see if you qualify for these benefits as they can be payable to people with fairly high incomes.

As capital can be treated as income that reduces benefit, it may be sensible to give away funds or to spend them upgrading your property (as property value is not regarded as capital). However, there are rules to counter blatant examples of capital reduction.