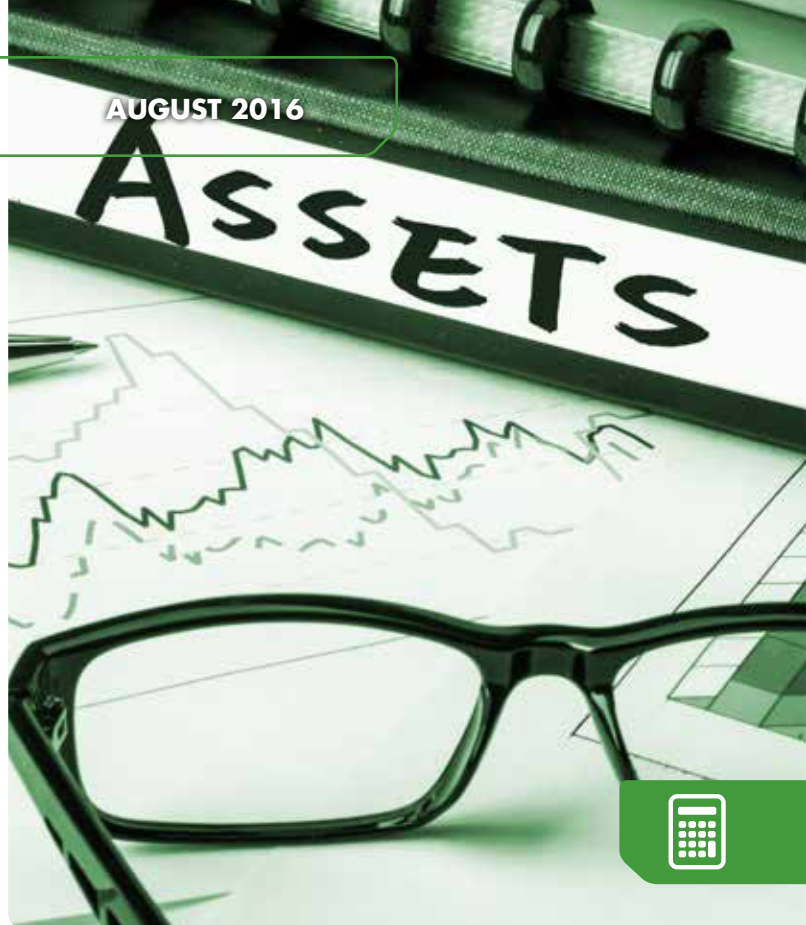




Teachers Financial Planning

Capital gains tax planning

A guide to capital gains tax efficiency when selling business assets for profit.



While capital gains tax (CGT) is paid by relatively few people, around 211,000 in 2013/14 according to HMRC, it can represent a significant cost for those affected.

The current tax-free allowance is £11,100, and everything above this will be taxed at either 10% or 20% depending on whether you're a basic or higher/additional rate taxpayer.

CGT is charged on the gains (profits) made when an individual or business disposes of an asset. In most cases 'disposal' will be in the form of a sale, but it could also mean a gift, insurance claim or compensation payment.

But not all assets are considered equal in the eyes of the taxman and there are various exemptions and reliefs for those who are planning to make a profit on the sale of their assets.

Chargeable gains and corporation tax

Tax on gains made by limited companies is usually dealt with through corporation tax.

Gains made by companies on the sale of assets that are liable for taxation in this way are called chargeable gains. The same basic principle of only being taxed on the gain of a transaction applies.

The main kinds of asset that a business will dispose of for a gain are:

- equipment and machinery
- land
- property
- shares.

Disposals of assets that are more intangible, such as intellectual property and business goodwill, are usually treated as income and taxed accordingly.

Tax on gains is paid in this way through corporation tax by:

- limited companies
- most unincorporated associations
- foreign companies with offices or branches located in the UK.

If you are a sole trader or business partner then you pay CGT in the same way as individuals. This also applies if your company is not resident in the UK, is controlled by 5 people or fewer, and the gain in question was made on UK residential property.

Contact us today to talk about paying CGT.

Capital allowances

If you claim capital allowances on an asset before you dispose of it, include the value of calculations in the accounting period in which the disposal occurs.

A full breakdown of capital allowances is beyond the scope of this article, but the use of the writing down allowance means that the original cost of an item can be deducted if a gain is made from its disposal.

This means that the value of the asset can be deducted from a company's profits before tax is paid.

Getting to grips with capital allowances and using them effectively can be complex. It is advisable to seek professional guidance.



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Gifts

CGT is not liable on assets that are given away as gifts to spouses or civil partners and charities. If you give away the assets to a business owned by a spouse or civil partner that are then intended to be sold on for a profit, you will be liable for CGT.

Gift hold-over relief is available when business assets (including certain kinds of shares) are gifted or sold for less than they are worth. Using this relief will mean that CGT is not liable on the gains made from the gifting, but the recipient will be liable if they later dispose of them.

If you are gifting business assets you must:

- be a sole trader, business partner or owner of at least 5% of shares and voting rights
- use the assets in your business.

If you are gifting shares, the shares must:

- not be listed on a recognised stock exchange, or
- be from your personal company, the main activity of which is trading (rather than investing).

We can assist you when it comes to gifting assets.

Reliefs

Aside from gift hold-over relief, there are a number of other reliefs that businesses can use to lower or manage their CGT liabilities.

Entrepreneurs' relief

Individuals who sell their business or part of it, may qualify for entrepreneurs' relief whereby they pay CGT at 10% on qualifying assets.

The eligibility criteria for this relief state that the individual must:

- be a sole trader or business partner of the business in question
- have owned the business for at least 1 year before the date of the sale
- have a minimum of 5% of shares and voting rights if you are disposing of shares or securities.

Shares that are acquired through an enterprise management scheme after 5 April 2013 and assets that the individual lent to their business or company also qualify.

If the company ceases to be a trading company, relief can still be attained if the assets are disposed of within 3 years.

The 10% CGT rate will be paid on any gains left over once the individual's annual exemption has been deducted. Entrepreneurs' relief is claimed through self-assessment with the final deadline for gains made in 2016/17 being 31 January 2019.

Business asset rollover relief

If business assets are disposed of and then all or part of the subsequent proceeds are used to buy new assets for use by the business, rollover relief can be used to delay the payment of CGT.

Business asset rollover relief ensures that the CGT owed on the sale of the assets won't need to be paid until the new asset is sold. Provisional relief can be sought for those with plans to buy assets that haven't yet and using the proceeds of the original sale to improve assets already owned is also eligible.

To qualify:

- the new assets must be purchased within 3 years of the disposal date of the original assets
- the business must be trading when the disposal and purchase occur
- both sets of assets must be used by the business.

Different rules apply if only part of the gains are being reinvested, the original assets were only partly used by the business or the assets bought are classed as 'depreciating assets'.

Incorporation relief

If you decide to transfer your business to another company in return for shares, incorporation relief may allow you to delay paying CGT until you dispose of the newly-owned shares.

To qualify for this relief you must:

- be a sole trader or be in a business partnership
- transfer the entire business and all its assets aside from cash.

Incorporation relief is not claimed. Rather, it is awarded automatically to those that are eligible.

Contact us to learn more about CGT reliefs.

Losses

The other side of gains are losses (selling an asset for less than it is worth) and it is possible that a company may have a mixture of both in any specific time period. These losses can be used to reduce a business' chargeable gains.

Where assets have qualified for capital allowances, the loss that can be claimed will be reduced by the value of said allowances.

If your total losses exceed your total gains then the remaining losses can be carried over into future tax years and used to further reduce your future tax liability.

Talk to us today about CGT and your business.

Important information

The way in which tax charges (or tax relief, as appropriate) are applied depends upon individual circumstances and may be subject to change in the future.

This document is solely for information purposes and nothing in this document is intended to constitute advice or a recommendation.

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