



Private Client Law Bulletin

Budget 22 June 2010 - Part 1: Capital Gains Tax

Individuals

The Government has introduced two Capital Gains Tax ("CGT") rates effective from 23 June 2010.

The effective rates to any disposal will depend on whether the individual is a basic or higher rate taxpayer for income tax purposes and whether the gain qualifies for Entrepreneurs' Relief.

Disposals made before 23 June 2010 will be charged at 18% of the total gain made, subject to personal allowances and any losses which are to be deducted therefrom.

Disposals made on or after 23 June 2010 will be charged at 18% where the gains plus the total income of the taxpayer are within the basic rate income tax band, that is where the gain plus total income is equal to or less than £37,400. Any gains which breach this threshold are charged at 28% to the extent that they exceed it.

Any disposals made before 23 June 2010 will not be taken into account when calculating whether the basic rate band has been used and determining the applicable CGT rate.

Any gains made by a taxpayer which qualify for Entrepreneurs' Relief (see our future bulletin) will have an effective tax rate of 10%. The Government has increased the limit of gains upon which Entrepreneurs' Relief can be claimed to £5 million over the tax payer's lifetime.

A worked example is given below:

Mr Smith has £6,000 capital losses at 5 April 2010 and he makes two disposals in the tax year:

- 1. On 18 April 2010 he sells a holiday home and makes a chargeable gain of £95,000*
- 2. On 29 June 2010 he sells shares and makes a chargeable gain of £38,000.*

As the first transaction is before 23 June, tax is payable at the flat rate of 18%, and Mr Smith has the option to apply the losses brought forward and his annual exemption to this period, or to gains after 22 June.

If those reliefs are not applied to this period, £17,100 CGT is due.

In the period 23 June 2010 to the end of the tax year, Mr Smith has salary of £41,000 and no other income.

After applying his basic income tax allowances, £34,525 salary is taxed at 20% leaving a balance of £2,875 basic rate band to be allocated to the gain in this period.

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His gains of £38,000 will be taxed as follows:

Gain		£38,000
<u>Less:</u>		
Losses	£ 6,000	
Annual Exemption	£10,100	
		<u>£16,100</u>
		£21,900

CGT on this transaction:

£2,875 @ 18% =	£ 517.50
£19,025 @ 28%=	<u>£5,327.00</u>

Total due this period: £5,844.50

Personal Representatives and Trustees

Gains of trustees or personal representatives of deceased persons will be charged at a flat rate of 28%.

If you have any queries about how the changes affect you or your clients, please do not hesitate to contact us.

If you require any specific advice in connection with the material contained in this bulletin, or on any other Private Client issues, please contact: Duncan Bailey in Liverpool on 0151 600 3451, Richard Bate in Manchester on 0161 836 8840 or Stephen Marriott in Preston on 01772 229 816.

If you no longer wish to receive the bulletin please let us know by return e-mail to helen.calvert@brabnerscs.com

This bulletin is for general guidance purposes only and should not be used for any other purpose.

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