RATHBONES

UNDERSTANDING CAPITAL GAINS TAX (CGT) FOR UK TAXPAYERS AND PRIVATE INDIVIDUALS

Your investment manager will manage your portfolio actively to respond to changing conditions in the global economy and financial markets, by disposing of assets and reinvesting the proceeds in accordance with your agreed investment mandate. When assets are sold at a gain, this may incur Capital Gains Tax (CGT).

What is CGT?

CGT is a tax that becomes payable on the gain that is generated from the disposal of certain assets (examples included below). It's just the gain (the increase in value between the original purchase cost and the disposal proceeds) that is taxed, not the amount of money you receive from the disposal of the asset. It may be possible to deduct certain costs, incurred in acquisition and disposal, from the gain.

Every tax year you receive an annual capital gains tax allowance (known as the annual exempt amount, or simply the annual allowance), which can be used to offset the gains generated. This means that you will only need to pay tax on the gains made over and above the annual allowance.

How CGT arises

You may become liable to a future CGT liability if, at the point at which you dispose of an asset that has appreciated in value, that gain is over and above the annual allowance. The amount of tax you'll pay depends on your individual circumstances, the gains you have realised throughout the tax year and the tax rates applicable.

When is CGT payable?

Disposals, or part disposals, of assets that are not otherwise held in a specific tax wrapper, such as a pension, an offshore/onshore investment bond or an Individual Savings Account (ISA) will be assessable to CGT. A disposal of an asset includes selling it, swapping it for another asset or giving it away to someone else. Certain disposals are exempt from CGT. These include gifts between your spouse or civil partner where the gain is deferred until the second spouse or civil partner disposes of the asset, and gifts to charity. Furthermore, CGT is not payable on death.

INVESTMENTS WHICH WILL BE ASSESSED FOR CGT ON DISPOSAL INCLUDE:

— Shares
— Collective investment funds (such as Unit Trusts or Open-Ended Investment Companies)
— Investment Trusts
— Exchange-traded funds (ETFs)
— Land
— Investment and second properties
— Other possessions (chattels such as art or jewellery)

ASSETS THAT YOU DO NOT HAVE TO PAY CGT ON INCLUDE:

— Your family home (although there are some caveats, please speak to your investment manager for more details)
— Certain personal possessions
— UK government bonds
— Venture Capital Trusts (VCT) and Enterprise Investment Schemes (EIS) which have benefited from income tax relief
— Qualifying corporate bonds
— Premium bonds

Deferring the gain

In some circumstances, the gains on disposal can be deferred. This is possible where hold-over relief is claimed or shares in an EIS are purchased. Please speak to your investment manager for more details.

Losses

There may be times where you dispose of an asset that is at a lower value than when you purchased it, thereby crystallising a loss. Losses that have been realised may offset gains generated in the same tax year, which could reduce the amount of CGT you have to pay. Losses can also be carried forward indefinitely from previous tax years and offset against future gains, providing these have been registered with HMRC within four years from the end of tax year in which they arise.

Gains realised above the annual allowance or total proceeds of disposals exceeding £50,000* in a given tax year will need to be declared on your annual self-assessment tax return and the tax paid by 31 January following the end of the tax year in which the disposal occurred. If, however, you sell a residential property, that is not your primary residence, you will need to report this and pay any CGT due within 60 days of completion.

* This is the current threshold applicable since 6 April 2023

Managing your CGT position

It's important that you advise us of any preferences and constraints in the management of your portfolio, which includes the crystallisation of gains giving rise to CGT. We will agree a strategy with you and explain the effect that these constraints may have in relation to our ability to meet your investment goals, as well as the impact this may have on the suitability of your portfolio.

Important information

— Tax legislation, CGT allowances and rates are subject to change.

— Tax treatments will depend on your individual circumstances and may be subject to change in the future.

— The contents of this document should not be relied upon for the purposes of establishing your personal taxation liability and you may need to seek your own independent tax advice.

— You should always take appropriate advice from a professional, who has made an evaluation at the point of investing.

The value of investments and the income from them may go down as well as up and you may not get back what you originally invested.

Additional information. The content contained in this document is for information purposes only and does not constitute as a recommendation to purchase any product or service. You should always take appropriate advice from a professional, who has made an evaluation at the point of investing.

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