

Answer to Example 2

	£
Capital Gain	18,300
Less AEA	(12,300)
Taxable Gain	<u>6,000</u>
Capital Gains Tax (W1)	
$6,000 \times 10\%$	£600
Due	31/1/2023

Income Tax Computation

Trading profit	20,000
Less PA	(12,570)
Taxable income	<u>7,430</u>

Basic rate band remaining = $37,700 - 7,430 = £30,270$.

The taxable gain of £6,000 therefore falls wholly into the remaining basic rate band so the CGT rate is 10% as the gain is not on residential property. If the taxable income of the taxpayer had been £32,700 then only £5,000 of the basic rate band would remain thus pushing £1,000 of the taxable gain into the higher rate band of 20%.

Answer to Example 3

	£
Capital Gain	30,300
Less AEA	(12,300)
Taxable Gain	<u>18,000</u>
Capital Gains Tax (W1)	
$9,270 \times 10\%$	927
$8,730 \times 20\%$	1,746
18,000	<u>£2,673</u>
CGT Due	31/1/2023

Income Tax Computation

Trading profit	41,000
Less Personal allowance	(12,570)
Taxable income	<u>28,430</u>

Basic rate band remaining.

$37,700 - 28,430 = £9,270$.

Part of the taxable gain (£9,270) falls within the remaining basic rate band so will be taxed at 10%, but (£18,000 – £9,270) the remaining £8,730 exceeds the basic rate band so will be taxed at 20%.

Answer to Example 4

	£
Capital Gain	26,300
Less AEA	(12,300)
Taxable Gain	<u>14,000</u>
Capital Gains Tax (W1)	
8,000 × 10%	800
<u>6,000 × 20%</u>	<u>1,200</u>
14,000	<u>£2,000</u>
CGT Due	31/1/2023

W1 Income Tax Computation

Trading profit	45,270
Less Personal allowance	(12,570)
Taxable income	<u>32,700</u>

Basic rate band remaining = £40,700 – £32,700 = £8,000

The basic rate band is extended by the gross gift aid payment: (£37,700 + 2,400 × 100/80) = 40,700

Part of the taxable gain (£8,000) falls into the remaining basic rate band so will be taxed at 10%, but £6,000 (£14,000 – £8,000) exceeds the basic rate band so will be taxed at 20%.

Answer to Example 5

	Property £	Ring £	
Gains	30,300	12,000	
AEA (note 1)	(12,300)		
Taxable Gains	<u>18,000</u>	<u>12,000</u>	
CGT (note 2)			
18,000 × 18% =	3,240		
10,500 × 10% =		1,050	
1,500 × 20% =		<u>300</u>	
	<u>3,240</u>	<u>1,350</u>	<u>4,590</u>

Note 1

The AEA is deducted firstly from the gain on the residential property as it would be subject to CGT rates of 18% and 28% whereas the gain on the diamond ring would only be subject to rates of 10% and 20%

Note 2

Taxable income of Gaynor is (21,770 – 12,570) £9,200 leaving an unused basic rate band of £28,500 (37,700 – 9,200). As the gain of £18,000 on the residential property falls entirely within the remaining basic rate band of £28,500 it will all be taxed at 18%.

This will leave (28,500 – 18,000) £10,500 remaining basic rate band to apply against the gain on the diamond ring.

Once you have correctly deducted any capital losses and the AEA from those gains suffering CGT at the highest rates and computed the resulting taxable gains, it will not then matter whether as above you firstly tax the gain on the residential property or whether you firstly tax the gain on the diamond ring as the difference between the lower and higher rates is in both cases the same, 10%:

Answers to examples

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12,000 x 10% =		1,200	
16,500 x 18% =	2,970		
1,500 x 28% =	<u>420</u>		
	<u>3,390</u>	<u>1,200</u>	<u>4,590</u>