

Answer to Example 2

Class 4	£
$(£50,270 - £9,568) \times 9\%$	3,663
$(£60,000 - £50,270) \times 2\%$	<u>195</u>
	3,858
Class 2	
$£3.05 \times 52 \text{ weeks}$	£159

Chapter 12**Answer to Example 1**

Tina – Capital Gains tax computation - 2021/22

Painting	£	£
Disposal proceeds	500,000	
Less Cost	<u>(350,000)</u>	
Capital Gain		150,000
Investment commercial property		
Disposal proceeds	310,300	
Less incidental costs of disposal	<u>(15,000)</u>	
Net proceeds	295,300	
Less cost	<u>(200,000)</u>	
Capital Gain		95,300
Antique vase		
Disposal proceeds	10,000	
Less cost	<u>(15,000)</u>	
Capital loss		<u>(5,000)</u>
Net capital gains in 2021/22		240,300
Less AEA		<u>(12,300)</u>
		228,000
Less Capital losses b/f		<u>(15,000)</u>
Taxable Gains		<u>213,000</u>
CGT $\times 20\%$ (Note)		£42,600
Due		31/1/2023

Note: Tina's taxable income of £50,000 exceeds the basic rate band of £37,700 and none of the assets sold are residential property nor assets eligible for business asset disposal or investors' relief, so all of the taxable gains are taxed at 20%

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
$8,730 \times 20\%$	<u>1,746</u>
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	<u>(12,300)</u>
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	<u>(12,570)</u>
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)	<u>(12,300)</u>		
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%:

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>

Answer to Example 6

$(£4.00 + £4.08) / 2 = £4.04p$

Value $1,000 \times £4.04p = £4,040$.

Answer to Example 7**Fiona**

	£
2020/21	
Capital gains in the tax year	15,000
Capital losses in the tax year	<u>(10,000)</u>
Net Capital gains in the tax year	<u>5,000</u>

Net Capital gains are covered by the AEA. No losses to carry forward to 2021/22.

2021/22	
Capital gains in the tax year	17,000
Capital losses in the tax year	<u>(4,200)</u>
Net Capital gains in the tax year	<u>12,800</u>
AEA	<u>(12,300)</u>
Taxable gains	<u>500</u>

Fiona is taxed on taxable gains of £500 in 2021/22. No losses to carry forward.

Jane

2020/21	
Capital gains in the tax year	7,000
Capital losses in the tax year	<u>(10,000)</u>
Net Capital Gains in the tax year	<u>Nil</u>

Jane is unable to use her 2020/21 AEA since her gains are covered by current year losses. She has net losses of £3,000 (10,000 - 7,000) to carry forward to 2021/22.

2021/22	
Capital gains in the tax year	15,000
Capital losses in the tax year	<u>(2,000)</u>
Net Capital Gains in the tax year	<u>13,000</u>
Less AEA	<u>(12,300)</u>
Net Capital Gains	<u>700</u>
Less Capital losses b/f	<u>(700)</u>
Taxable Gain	<u>Nil</u>

The capital loss b/f is used so as to reduce the net gains of the year down to a nil taxable gain. Capital loss to carry forward is then $3,000 - 700 = £2,300$.

Answer to Example 8

Gollum transfers the ring at no gain / no loss in December 2021 which will be at the cost to Gollum of £12,000

Frodo sells the ring

	£
Disposal Proceeds	20,000
Less Cost	<u>(12,000)</u>
Capital gain	8,000

Frodo simply takes on the original cost of the asset from Gollum in now computing his gain on sale.

Answer to Example 9

		£
Proceeds		16,000
Less Acquisition cost	$26,000 \times \frac{16,000}{16,000 + 34,000}$	<u>(8,320)</u>
Chargeable gain		<u>7,680</u>

Answer to Example 10

(a) Antique table – this is an exempt asset as cost and proceeds are both $\leq$ £6,000 and it is a non wasting chattel.

(b) Painting – non wasting chattel

Normal calculation

	£
Disposal proceeds	10,000
Cost	<u>(2,000)</u>
Chargeable gain	<u>8,000</u>

Restricted to $\frac{2}{3}$ $[10,000 - 6,000] = \text{£}6,667$

(c) Antique vase – non wasting chattel

	£
Disposal proceeds (deemed)	6,000
Less cost	<u>(8,000)</u>
Capital loss	<u>(2,000)</u>

(d) The vintage car is exempt

	£
Asset (1)	–
Asset (2)	6,667
Asset (3)	<u>(2,000)</u>
Asset (4)	–
Net chargeable Gain	<u>4,667</u>

Answer to Example 11

	£	£
Proceeds		38,000
Less Acquisition cost		
Purchase	25,000	
Less $12/30 \times [25,000 - 1,000]$	(9,600)	
		(15,400)
Chargeable gain		<u>22,600</u>

Chapter 13**Answer to Example 1**

(a) Match with acquisitions on same day as sale none

(b) Match with acquisitions in next 30 days

7 July 2021

200 shares

	£	£
Disposal proceeds ($200/1,000 \times £25,000$)	5,000	
Less: cost	<u>(4,000)</u>	
Capital gain		1,000

(c) Match with share pool - remaining 800 shares

	Number	Cost
31 May 2016	1,500	20,000
30 June 2017	<u>500</u>	<u>10,000</u>
	2,000	30,000
Disposal	<u>(800)</u>	<u>(12,000)</u>
	1,200	18,000

	£	£
Calculate Gain		
Disposal proceeds ($800/1,000 \times £25,000$)	20,000	
Less: cost	<u>(12,000)</u>	
Capital gain		<u>8,000</u>
Capital Gains		<u>9,000</u>

Answers to examples

Answer to Example 2

- (a) Match with acquisitions on same day none
 (b) Match with acquisitions in next 30 days none
 (c) Match with share pool

	<i>Number</i>	<i>Cost</i>
Feb 2017	7,000	15,000
June 2017	<u>1,000</u>	<u>4,000</u>
	8,000	19,000
July 2017 Bonus 1:5	<u>1,600</u>	<u>–</u>
	9,600	19,000

October 2021 Disposal	<u>(5,000)</u>	<u>(9,896)</u>
	4,600	9,104

Calculate Gain

	<i>£</i>
Disposal proceeds	20,000
Less: cost	<u>(9,896)</u>
Capital gain	<u>10,104</u>

Answer to Example 3

- (a) Match with acquisitions on same day none
 (b) Match with acquisitions in next 30 days none
 (c) Match with share pool

	<i>Number</i>	<i>Cost</i>
Feb 2017	6,000	15,000
June 2017	<u>900</u>	<u>2,700</u>
	6,900	17,700
July 2017 Rights 1: 3 @ £3.00	<u>2,300</u>	<u>6,900</u>
	9,200	24,600

September 2021 Disposal	<u>(6,000)</u>	<u>(16,043)</u>
	3,200	8,557

Calculate Gain

	<i>£</i>
Disposal proceeds	24,000
Less: cost	<u>(16,043)</u>
Capital gain	<u>7,957</u>

Answer to Example 4

Disposal proceeds	35,000
Less Cost (W 1)	<u>(10,000)</u>
Capital gain	<u>25,000</u>

Working 1:

Cost of ordinary shares in Gold Ltd

As Mark received both ordinary and preference shares in Gold the cost of his shares in Silver (£12,000) is divided between his new shareholdings in Gold according to the market values of the shares received

Mark received:

8,000 ordinary shares, valued at £5 =	40,000
4,000 preference shares, valued at £2 =	<u>8,000</u>
Total	<u>48,000</u>

The cost attributable to the ordinary shares is therefore: £12,000 x $\frac{40,000}{48,000}$ = £10,000

Answer to Example 5

Mark receives at takeover:

	<i>Market value</i>	<i>Cost</i>
8,000 Gold Ltd ordinary shares	£40,000	£10,000
Cash	<u>£8,000</u>	<u>£2,000</u>
Total	£48,000	£12,000

The original Silver Ltd share cost of £12,000 is divided between the shares and cash received from Gold Ltd proportionate to the value received. As cash has now been received at the time of the takeover an immediate gain arises.

Capital gain in June 2020:

(Computed from working above)

	<i>£</i>
Proceeds (cash received)	8,000
Less Cost	<u>(2,000)</u>
Capital gain	<u>6,000</u>

Chapter 14

Answer to Example 1

Daisy

Sale of business

	£
Goodwill	250,000
Factory	320,000
Warehouse	(90,000)
	<u>480,000</u>

Sale of shares

Gain on shares	<u>370,000</u>
Net chargeable gains	850,000
Less AEA	<u>(12,300)</u>
Taxable gain	837,700
Capital Gains Tax $£838,000 \times 10\%$	<u>£83,770</u>
Due	31/1/2023

Business asset disposal relief is available on both disposals, the sale of the business and the sale of the shares where Daisy had owned at least 5% of the shares and been an employee for a period of at least 24 months

Daisy has utilised £850,000 (£480,000 + £370,000) of business asset disposal relief in 2021/22 so has (£1,000,000 – £850,000) = £150,000 to utilise over the rest of her lifetime.

Answer to Example 2

Anne

Capital Gains Calculation

	£	£
Capital gains qualifying for business asset disposal relief		
Sale of shares		
Proceeds	500,000	
Cost	<u>(50,000)</u>	
Capital gains / taxable gain	450,000	
Capital gains not qualifying for business asset disposal relief		
Sale of painting		100,000
Less AEA(note 1)		<u>(12,300)</u>
		87,700
Less Capital losses b/f		<u>(25,000)</u>
Taxable gain		<u>62,700</u>
Capital Gains Tax @ 10% / 20% (W1)	£45,000	£12,540
Due date	31/1/2023	31/1/2023
(W1)		£
£450,000 × 10%		45,000
£62,700 × 20% (Note 2)		<u>12,540</u>
Capital Gains Tax		<u>57,540</u>

Note 1

The AEA and the capital losses are applied against the gain on the sale of the painting as it will be taxed at a higher tax rate than the gain on the share disposal which is eligible for business asset disposal relief. Business asset disposal relief is available as Anne has held at least 5% of the shares and been an employee for the last 24 months

Note 2

Although £19,700 (£37,700 – £18,000) of Anne's basic rate band is unused, this is deemed to be utilised by the gains qualifying for business asset disposal relief (even though the 10% tax rate was applicable to that gain) and therefore pushes all of the taxable gain on the painting into the 20% band

There is a lifetime allowance of £550,000 (£1,000,000 – £450,000) remaining to utilise on future gains qualifying for business asset disposal relief.

Answer to Example 3

The gain on the disposal of the Toon Ltd shares will qualify for investors' relief as the shares were subscribed for on or after 17 March 2016 and have been held for a period of at least 3 years post 6 April 2016 in an unquoted trading company in which Ashley has not worked.

Disposal of shares in Toon Ltd

	£
Sale Proceeds	375,000
Allowable cost (30,000/40,000 x £40,000) =	(30,000)
Chargeable Gain	345,000
AEA (note 1)	(5,300)
Taxable Gain	339,700
CGT @ 10% =	33,970

Note 1

The AEA of £12,300 will firstly be used against the other chargeable gains of £7,000 as they would be taxed at 20% leaving £5,300 to set off against the gains qualifying for investors' relief that will be taxed at only 10%.

Answer to Example 4

	£
Cost of new asset	320,000
Less: Capital gain on old asset (£300,000 - £250,000)	(50,000)
Deemed cost of new asset	270,000

As all the sale proceeds have been reinvested in a new qualifying business asset within 12 months before to 3 years after the disposal date, the entire gain is eligible for rollover relief. If rollover relief was not claimed note that business asset disposal relief would not be available as this is the disposal of an individual asset used in the business, not the disposal of the business itself.

Answer to Example 5

(a) New factory purchased for £750,000

	£	£
Purchase cost of new factory		750,000
Capital gain on old factory (£800,000 - £680,000)	120,000	
Restriction on rollover (£800,000 - £750,000)	(50,000)	
Gain rolled over		(70,000)
Base cost of new factory		680,000

As £50,000 of the sale proceeds has not been reinvested this amount of the gain remains chargeable. Business asset disposal relief is not available in respect of the gain of £50,000 that is immediately chargeable as it is not the disposal of the business itself but simply an asset used in that business. If however, a further £50,000 were to be reinvested in other qualifying business assets by August 2024 (3 years from disposal date) a further rollover relief claim could be made to defer the remaining gain

(b) New factory purchased for £600,000

In this case the amount of proceeds not reinvested of £200,000 ($800,000 - 600,000$) exceeds the gain made on the old factory. Thus none of the gain is eligible to be rolled over and so there is no adjustment to the base cost of the new factory. It remains at the purchase price of £600,000. Business asset disposal relief would not be available against the gain of £120,000 in 2022/23 as it is not the disposal of the business.

If however further reinvestment in qualifying assets within the relevant time period (by August 2024) is made then claims for rollover relief may then be available. For this to happen the further reinvestment must be in excess of £80,000 and full rollover would be achieved if the additional reinvestment amounted to at least £200,000

Answer to Example 6**(a)** The non-qualifying part of the gain is:

£9,000 ($£600,000 - £540,000 = £60,000 \times 15\%$).

This is taxable immediately, as it does not qualify for rollover relief. Business asset disposal relief will not be available as it is not the sale of the business.

(b) As all the business proportion of the sale proceeds has been reinvested in a business asset the business proportion of the gain (85%) may be rolled over in full. The base cost of the new factory is reduced by the amount of the gain rolled over. It is therefore:

	£
Purchase cost	650,000
Capital gain rolled over ($£60,000 \times 85\%$)	(51,000)
	<u>599,000</u>

Answer to Example 7

As Charles reinvested all of the proceeds from the sale of the freehold factory in a 55 year leasehold factory, a depreciating asset, the entire gain may be held over. The held over gain on the sale of the factory in June 2021 becomes chargeable in 2022/23, as the depreciating asset has been sold in February 2023. The capital gain is £200,000 ($£500,000 - £300,000$). A further gain of £40,000 ($640,000 - 600,000$) arises on the sale of the leasehold factory. Business asset disposal relief is not available as Charles did not dispose of the whole business.

Answer to Example 8

David has made a disposal in September 2021 as follows:

	£
Market value of asset	100,000
Less: Cost	<u>(60,000)</u>
	40,000
Less: Gift holdover relief	<u>(40,000)</u>
Revised gain	<u>Nil</u>

Tommy has a deemed base cost to set against a future disposal, calculated as follows.

	£
Market value of asset acquired	100,000
Less: gain deferred	<u>(40,000)</u>
	<u>60,000</u>

Answer to Example 9**(a)** Richard – Chargeable gain on shares sold at undervalue in March 2022

	£	£
Market value of shares in March 2022		200,000
Less cost		(60,000)
Capital Gain		140,000
Less: Gain deferred		
Capital gain	140,000	
Less: Proceeds received – actual cost (85,000 – 60,000)	(25,000)	
		(115,000)
Revised gain eligible for business asset disposal relief		25,000
Less AEA		(12,300)
Taxable gain		12,700
CGT @ 10%		£1,270

(b) Richard's son – Base cost

	£
Market value of shares in March 2022	200,000
Less: Gain deferred	(115,000)
Base cost	85,000

Answer to Example 10

	£
John's Proceeds (market value)	800,000
Less: cost	(200,000)
Capital Gain	600,000
Less gift holdover relief (W1)	(525,000)
Revised gain eligible for business asset disposal relief	75,000
Less AEA	(12,300)
Taxable gain	62,700
CGT @ 10%	£6,270

John's son Base cost of shares

Cost (Market value)	800,000
Less: Gain deferred	(525,000)
Base cost	275,000

(W1) Gain eligible for Gift holdover relief

The shares in the unquoted trading company will qualify for gift holdover relief but as £100,000 (investments) of the £800,000 (investments, premises and goodwill) of chargeable assets are investments the relief is restricted as follows:

$$600,000 \times \frac{700,000}{800,000} = 525,000$$

Answer to Example 11

	£
Disposal proceeds	150,000
less cost	(10,000)
Capital gain	140,000
less PRR (W1)	(74,851)
Chargeable Gain	65,149

	Actual & Deemed Occupation (months)	Absent (months)
(W1)		
1/4/1996 – 30/6/1996 (actual)	3	
1/7/1996 – 30/6/1998 (working overseas)	24	
1/7/1998 – 31/12/2004 (actual)	78	
1/1/2005 – 30/6/2021 (4 years work in UK/last 9 months)	57	141
	162	141

$$\text{PRR} = \frac{162}{303} \times 140,000 = 74,851$$

Answer to Example 12

	£
Disposal proceeds	420,000
Less cost	(160,000)
Capital Gain	260,000
Less PRR (W1)	(230,351)
	29,649
Less Letting relief (W2)	(29,649)
Chargeable Gain	0

	Exempt months	Chargeable months	
(W1)			
1/11/2010 – 1/5/2016 (actual occupation)	66		66
1/5/2016 – 1/8./2020 (1/3 let 2/3 occupation)	34	17	51
1/8/2020 - 1/5/2021 (last 9 months)	9		9
	109	17	126

$$\text{PRR} = \frac{109}{126} \times 260,000 = 224,921$$

W2 Lowest of:

(i) 224,921

(ii) 40,000

(iii) $\frac{17}{126} \times 260,000 = 35,079$

If the property had been let from 1 May 2015 instead of 1 May 2017 the PRR relief would be reduced and the amount of chargeable gain attributable to the period of letting would be increased to £ 47,895 ($21^*/114 \times 260,000 = 47,895$ and therefore the lettings relief would be limited to £40,000)

*chargeable months would now be $63 \times 1/3 = 21$