

Chapter 12

Answer to Example 1

Tina – Capital Gains tax computation - 2018/19

Painting	£	£
Disposal proceeds	500,000	
Less Cost	<u>(350,000)</u>	
Capital Gain		150,000
Investment property		
Disposal proceeds	310,000	
Less incidental costs of disposal	<u>(15,000)</u>	
Net proceeds	295,000	
Less cost	<u>(200,000)</u>	
Capital Gain		95,000
Antique vase		
Disposal proceeds	10,000	
Less cost	<u>(15,000)</u>	
Capital loss		<u>(5,000)</u>
Net capital gains in 2018/19		240,000
Less capital losses b/f		<u>(12,000)</u>
Net Capital Gains		228,000
Less Annual Exempt Amount		<u>(11,700)</u>
Taxable Gains		216,300
CGT × 20% (Note)		£43,260
Due		31/1/2020

Note: Tina's taxable income of £50,000 exceeds the basic rate band of £34,500 and none of the assets sold are residential property nor assets eligible for entrepreneurs relief, so all of the taxable gain is taxed at 20%

Answer to Example 2

	£
Capital Gain	18,000
Less AEA	<u>(11,700)</u>
Taxable Gain	6,300
Capital Gains Tax (W1)	
6,300 × 10%	£630
Due	31/1/2020

Income Tax Computation

Trading profit	20,000
Less PA	<u>(11,850)</u>
Taxable income	8,150

Basic rate band remaining = 34,500 – 8,150 = £26,350.

The taxable gain of £6,300 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 £29,500 then only £5,000 of the basic rate band would remain thus pushing £1,300 of the taxable gain into the higher rate band of 20%.

Answer to Example 3

	£
Capital Gain	30,000
Less AEA	<u>(11,700)</u>
Taxable Gain	18,300
Capital Gains Tax (W1)	
5,350 × 10%	535
<u>12,950 × 20%</u>	<u>2,590</u>
18,300	£3,125
CGT Due	31/1/2020

Income Tax Computation

Trading profit	41,000
Less Personal allowance	<u>(11,850)</u>
Taxable income	29,150

Basic rate band remaining.

$34,500 - 29,150 = £5,350$.

Part of the taxable gain (£5,350) falls within the remaining basic rate band so will be taxed at 10%, but (£18,300 – £5,350) £12,950 exceeds the basic rate band so will be taxed at 20%.

Answer to Example 4

	£
Capital Gain	26,000
Less AEA	<u>(11,700)</u>
Taxable Gain	14,300
Capital Gains Tax (W1)	
4,350 × 10%	435
<u>9,950 × 20%</u>	<u>1,990</u>
14,300	£2,425
CGT Due	31/1/2020

W1 Income Tax Computation

Trading profit	45,000
Less Personal allowance	<u>(11,850)</u>
Taxable income	33,150

Basic rate band remaining $£37,500 - £33,150 = £4,350$

Part of the taxable gain (£4,350) falls into the remaining basic rate band so will be taxed at 10%, but (£14,300 – £4,350) £9,950 exceeds the basic rate band so will be taxed at 20%.

The basic rate band is extended by the gross gift aid payment: $(£34,500 + 2,400 \times \frac{100}{80}) = 37,500$.

Answer to Example 5

	<i>Property</i>	<i>Ring</i>	
	£	£	
Gains	30,000	8,000	
AEA (note 1)	(11,700)		
Taxable Gains	<u>18,300</u>	<u>8,000</u>	
CGT (note 2)			
18,300 x 18% =	3,294		
6,550 x 10% =		655	
1,450 x 20% =		290	
	<u>3,294</u>	<u>945</u>	<u>4,239</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 (21,500 – 11,850) £9,650 leaving an unused basic rate band of £24,850 (34,500 – 9,650). As the gain of £18,300 on the residential property falls entirely within the remaining basic rate band of £24,850 it will all be taxed at 18%.

This will leave (24,850 – 18,300) £6,550 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%:

8,000 x 10% =		800	
16,850 x 18% =	3,033		
1,450 x 28% =	<u>406</u>		
	<u>3,439</u>	<u>800</u>	<u>4,239</u>

Answer to Example 6

$$(\pounds4.00 + \pounds4.08) / 2 = \pounds4.04\text{p}$$

$$\text{Value } 1,000 \times \pounds4.04\text{p} = \pounds4,040.$$

Answer to Example 7

Fiona

	£
2017/18	
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	5,000

Net Capital gains are covered by the AEA. No losses to carry forward to 2018/19.

2018/19	
Capital gains in the tax year	17,000
Capital losses in the tax year	<u>(5,200)</u>
Net Capital gains in the tax year	11,800
AEA	<u>(11,700)</u>
Taxable gains	<u>100</u>

Fiona is taxed on taxable gains of £100 in 2018/19. No losses to carry forward.

Jane

2017/18	
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	Nil

Jane is unable to use her 2017/18 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 2018/19.

2018/19	
Capital gains in the tax year	14,000
Capital losses in the tax year	<u>(2,000)</u>
Net Capital Gains in the tax year	12,000
Less capital loss b/f (restricted)	<u>(300)</u>
Net Capital Gains	11,700
Less AEA	<u>(11,700)</u>
Taxable Gain	<u>nil</u>

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

Answer to Example 8

Gollum transfers the ring at no gain / no loss in December 2018 which will be at the cost to Gollum of £12,000

Frodo sells the ring

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

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		7,680

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	8,000

Restricted to $\frac{5}{3}$ [10,000 – 6,000] = **£6,667**

(c) Antique vase – non wasting chattel

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

(d) The vintage car is exempt

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

Answer to Example 11

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

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 March 2019	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	
		<i>Number</i> <i>Cost</i>
	31 May 2015	1,500 20,000
	30 June 2016	<u>500 10,000</u>
		2,000 30,000
	Disposal	<u>(800) (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	8,000
	Capital Gains	9,000

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 2016	7,000	15,000
June 2016	<u>1,000</u>	<u>4,000</u>
	8,000	19,000
July 2016 Bonus 1:5	<u>1,600</u>	<u>–</u>
	9,600	19,000

October 2018 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	10,104

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 2016	6,000	15,000
June 2016	<u>900</u>	<u>2,700</u>
	6,900	17,700
July 2016 Rights 1: 3 @ £3.00	<u>2,300</u>	<u>6,900</u>
	9,200	24,600

September 2018 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	7,957

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	<u>£48,000</u>	<u>£12,000</u>

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 2017:

(Computed from working above)

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