Capital Gains Tax Guide 2022/23

ESPER WEALTH
PROPERTY INVESTMENTS

www.esperwealth.com

Whenever you invest it is wise to minimise tax by taking advantage of any allowances and exemptions that are available.

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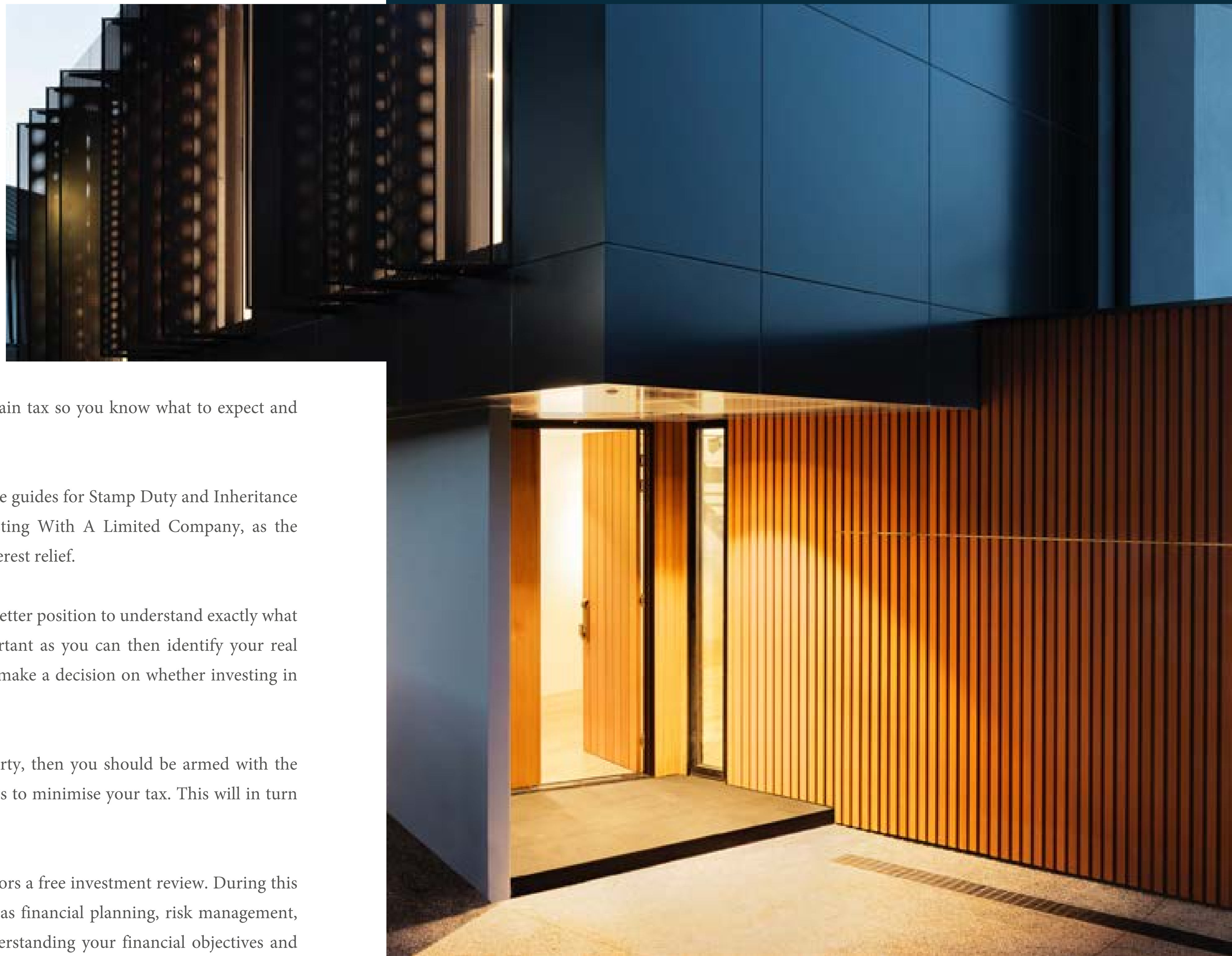

In this guide, we cover all the essentials of capital gain tax so you know what to expect and what to do to minimise this tax obligation.

This brochure should be read in conjunction with the guides for Stamp Duty and Inheritance Tax. We also recommend reading the guide Investing With A Limited Company, as the brochure coves rule changes about mortgage rate interest relief.

By collectively reading these brochures you are in a better position to understand exactly what you will be taxed on any investment. This is important as you can then identify your real investment return. From this information, you can make a decision on whether investing in property is the right choice for you.

We believe that if you do decide to invest in property, then you should be armed with the knowledge of how best to structure your investments to minimise your tax. This will in turn increase your investment return.

As part of our service, we offer all prospective investors a free investment review. During this consultation, we will discuss important topics such as financial planning, risk management, and taxation. This will be in conjunction with understanding your financial objectives and risk profile so we can give you the best advice. If you wish to utilise this service then feel free to contact us today to arrange a review.

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Capital Gains Tax Defined

When you make money the government wants it's cut. If you earn money you pay income tax, whilst if you invest in an asset and subsequently sell for profit, you could be subject to capital gains tax CGT. Though this is not always the case.

List of Assets Included for CGT

Most assets are subject to this tax. The list below highlights the main ones.

- It can include the sale of shares, bonds, funds, or most other financial instruments, including cryptos.
- The sale of a business.
- Property investments, as well as inherited properties or second homes.
- Commodities such as gold, silver, and any other physical product.
- Other tangible assets. This includes art, wine, stamps, and classic cars.

List of Exemptions for CGT

- If you hold an investment for less than a year then sell it for a profit. In this instance, the government considers this as income so you would be subject to income tax.
- If you sell your main residence.
- If you utilise your CGT personal allowance. We discuss this in greater detail later.
- If you invest in something which is exempt from CGT.

Capital Gains Tax Explained

When you sell an asset for profit you may have CGT to pay. Unlike income tax, CGT is not automatically deducted by the inland revenue. You need to report this yourself.
You must report this correctly. Because if you don't provide accurate reports, you will pay a hefty fine.

Capital gains tax allowance

Every person is entitled to a capital gains tax allowance. This is £12,300 for individuals. This means that you can make £12,300 of profit on your assets before the applicable rates kick in.

Should you have joint ownership of a taxable asset such as a second home, the allowance doubles to £24,600. For those who are married or in a civil partnership, assets can be exchanged between you.

However, be aware that if you do transfer assets to a partner and make a gain from this at a later date, the CGT that you pay will be based on the total time that you owned the asset(s) together, rather than the date of transference.

Capital gains tax rates

CGT rates differ from income tax rates and are in two broad brackets: basic rate payers and higher rate payers. Over the 2022/2023 tax year the basic rate on residential property gains was 18% and 10% on all other assets.

The higher/additional rate of CGT in the same year was 28% on residential property and 20% on all other assets.

However, there is no guarantee that these rates will remain the same in future years. The government has recently shelved plans to raise CGT. Though the FT has announced that this is more likely a stay of execution and could be introduced in the next parliament. The table below shows the proposed rate changes which were subsequently rejected.

	Property		Other assets	
Proposed changes to CGT	Old rules	Proposed new rules	Old rules	Proposed new rules
Basic rate Taxpayers	18%	20%	10%	20%
Higher rate taxpayers	28%	40%	20%	40%
Additional rate taxpayers	28%	45%	20%	45%

How to calculate capital gains tax

You can do this manually. Alternatively, you can use a Capital Gains Tax Calculator. There is one located on the government website. This page also lists out some of the deductions, and reliefs which may be available.

An accountant or a financial advisor will be able to analyse your income and outgoings and make sense of any tax obligations. You can find out about all other tax rates via our tax card which is located on our website.

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How and when do I pay CGT?

If you currently complete a tax return, then CGT can be reported through this. Alternatively, you can use the UK government's capital gains tax service to pay what you owe.

Anytime you sell a taxable asset and receive more for it than you paid, CGT will apply. CGT on second homes (or non-primary residential property) must be declared within 60 days of the completion of the sale.

If you're including CGT within your annual tax return, the official deadline for tax returns is 31st January. However, for the sale of residential property de deadline is 60 days.

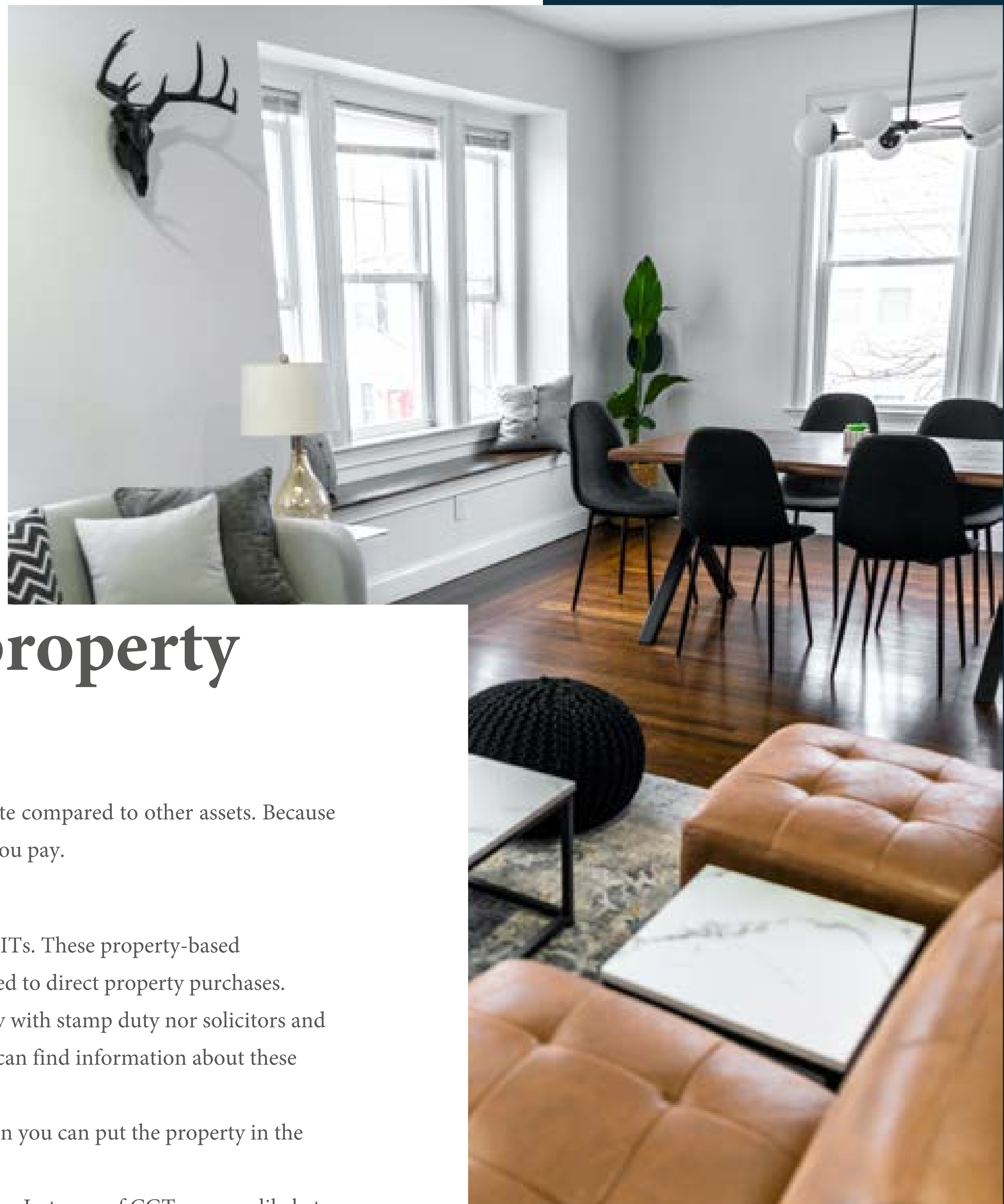
How to avoid capital gains tax

The simple answer is that if you owe CGT contributions then you must pay it.
However, there are several reliefs and conditions you can use which may mean the amount of CGT you pay is lower.

Ways to reduce capital gains tax

There are several things you can do to reduce your CGT bill.

1. You can offset any losses against your gains.
2. Transfer assets to your partner. This means that you both take advantage of your full pre-tax allowance of £12,300
3. Use your CGT allowance. As CGT allowances can't be rolled over into the following tax year you should use them whenever possible.
4. Be aware of your wasted assets. Wasted assets are those which have a life of under 50 years, such as antique clocks, vintage cars, or caravans.
5. Invest your money in SEIS, EIS, or ISAs. These investments provide tax-free benefits.
6. Give to charity. If you give shares, land, or property to charity then income and CGT relief are available.
7. Pay into a pension. This may alter your CGT bracket resulting in less tax.
8. Where both spouses or civil partners have used their annual CGT allowance, ensure assets are sold by the individual who pays the lowest marginal rate of tax.
9. Stay on top of your investments. By knowing what obligations you have you can work out how to minimise your CGT obligations by choosing the best time to dispose of an asset.



Implications for property investors

As a property investor, you are subject to CGT at a higher rate compared to other assets. Because of this, it is important to do what you can to minimise what you pay.

Fortunately, there are a number of options available to you.

1. You could invest in property via equities, funds, and REITs. These property-based investments are taxed at an 8% lower CGT rate compared to direct property purchases. They also offer the benefits of not having to deal directly with stamp duty nor solicitors and estate agents which also eat into your bottom line. You can find information about these products on our website.
2. If you are a couple and one person is on a lower rate then you can put the property in the lower rate person's name.
3. Think about buying property through a limited company. In terms of CGT, you are likely to pay 19%. Furthermore, your income tax will be lower if you are a higher-rate taxpayer.

The Esper Approach

At Esper Wealth we work for you. Our role is to listen to you and guide you to achieve your goals. As a client we want you to feel comfortable in the investment process, in the belief that we are delivering the best advice. With this in mind, it is important to follow three simple rules when investing:

1. **Never feel pressured.** Many property sales companies work on urgency. This is the wrong approach. You should take the time to decide what is right for you and your family. If this means you miss a particular property then be rest assured another opportunity will arise.
2. **Be transactional.** This means trying not to be emotive about a property. Remember you are not living in it. Ask yourself, do the numbers work financially for me?
3. **Ask yourself, what if?** In life, we never know what's around the corner. Sometimes your circumstances can change. If things do change, how will it impact me? Whilst you can never legislate for all contingencies, it is advisable to invest with your eyes open.

If you are interested in off-plan opportunities, or completed property direct from the developer, then visit our developments page. Alternatively, if you would prefer to start your investment journey by having a no obligations, free investment review, Then contact a member of our team who will be happy to help.