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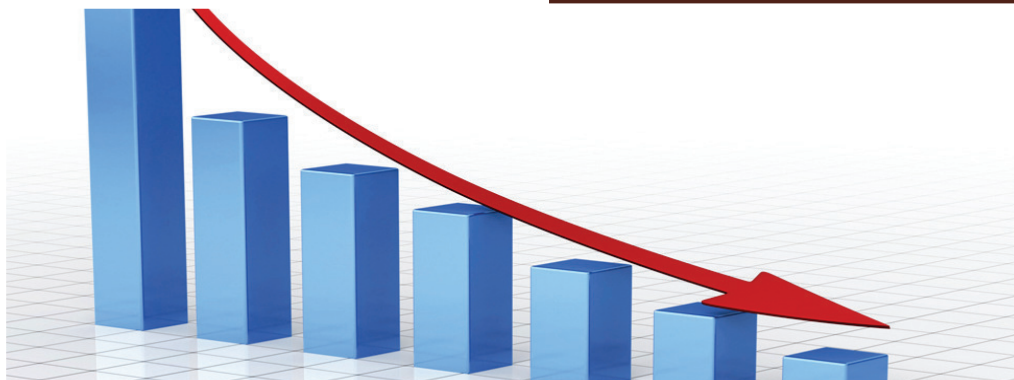
Make The Most Of Capital Losses

When a capital asset is disposed of (which includes sales, gifts, swaps or receipts of compensation), it may precipitate a capital gain or a capital loss. In the unfortunate event that you make a loss on the sale of your asset, you can generally offset the loss against any other gains you make in the same year or in the future. However, capital losses are not transferable and therefore cannot, for example, be transferred from one spouse or civil partner to the other – the capital gains of one spouse cannot be offset against the capital losses of the other.



Ordering of losses

A strict order applies for setting-off capital losses against capital gains. Firstly, losses arising in the tax year are offset against any other chargeable gains for the same year. You must deduct all your losses for the year, even if this results in chargeable gains after losses below the level of the capital gains tax (CGT) annual exempt amount. If the allowable losses arising in the tax year are greater than the total chargeable gains for the year, you can carry forward the excess losses to be deducted from chargeable gains in future years.

Reducing the chargeable gain

The next step is to look at any unused losses available from a previous tax year.

If chargeable gains remain after deducting the allowable losses arising in the year, any unused allowable losses brought forward from an earlier year may be deducted. However, you only need to deduct sufficient allowable losses brought forward to reduce the chargeable gains after losses to the level of the CGT annual exempt amount. Any remaining losses brought forward are carried forward again without limit, to be deducted from chargeable gains in future years.

Example – Losses brought forward

In 2014/15, Edward makes total chargeable gains of £15,000 and has allowable losses of £3,000. He also has unused allowable losses available from an earlier year of £8,000.

He deducts the current year losses first from his gains (£15,000 – £3,000), which leaves a chargeable gain of £12,000. Next, he deducts £1,000 of the losses brought forward, to take his chargeable gains down to £11,000 (the level of the CGT annual exemption for 2014/15). He can then carry forward the remaining unused losses of £7,000 (£8,000 – £1,000) to be used against chargeable gains arising in future years.

As his chargeable gains after losses don't exceed the annual exempt amount for 2014/15, Edward doesnot have to pay any CGT.

Year of death

Capital losses cannot be carried back to earlier tax years, except with respect to unused capital losses arising in the year of death of the individual, which can be carried back for up to three tax years. The same approach as above is adopted with respect to the carry back of capital losses following death.

Negligible value claims

It is possible to claim losses on assets that you still own if they become worthless or of 'negligible value'. Providing certain conditions are met, the asset is treated as though it was sold and immediately reacquired at the time the claim is made for an amount equal to its value. It is possible to specify an earlier date, falling in the two previous tax years, for the deemed disposal. A resulting loss arising from a negligible value claim can be used to reduce your income tax liability for the year, if the loss relates to qualifying shares where certain conditions are satisfied. Further information on negligible value claims is given the HMRC Helpsheet 286: "Negligible value claims and Income Tax losses on disposals of shares you have subscribed for in qualifying trading companies."

Practical Tip:

The annual CGT exemption is a 'use-it-or-lose-it' allowance – if you don't use it in one tax year, you can't carry it forward to the next tax year. If you are thinking about selling, say, a bundle of shares, consider selling some shares at the end of one tax year and some at the beginning of the new tax year. In this way, you can use the capital gains annual exemptions for two years and (under current rates) could save up to £6,160.

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We are a pro-active financial and taxation consultancy delivering excellent customer service to individuals and owner-managed businesses at outstanding value. We are forward-looking in our approach, focusing on the business success of our clients rather than focusing solely on compliance.

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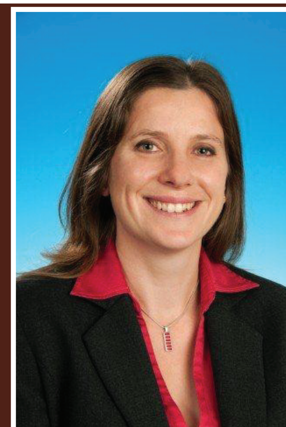


Personal Tax

Use Rounding In Your Tax Return

If you have income that includes 'pence', round down these figures.

For expenses always round them up.

Multiple figures for one entry cannot be rounded until the final figure is calculated, at which point this figure can be rounded up or down as appropriate.

This may not save you a lot of tax but every little bit helps!

Case Study:

Barry is self-employed and uses 15 boxes in total on his Tax Return.

By rounding, he may save tax on up to £14.85, equating to a saving of £5.94 in tax for a 40% taxpayer. Enough for a drink!

Property Tax

'Hold-Over' Relief

'Hold-over' relief is a way of deferring payment of CGT on certain assets, including land and buildings used in a business, until the new owner of the asset sells. The donee, in effect, takes over the original cost of the asset and may eventually have to pay CGT on both the gain incurred from the date of gift plus the gain 'held over'.

HMRC have produced Help Sheet 295 'Relief of gifts and similar transactions' that details the procedure. A claim form needs to be signed and submitted.

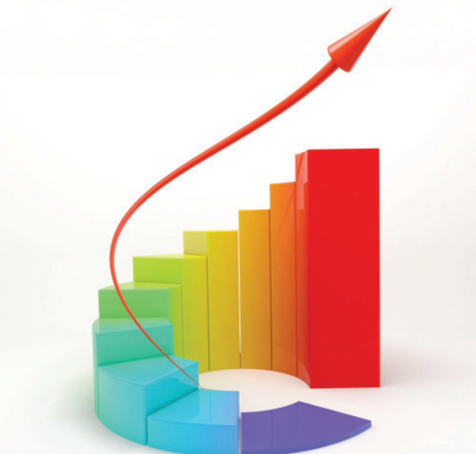
Case Study:

Judy owns a second home which shows a significant gain. She gives the cottage to her husband Jim.

This is treated as a 'no gain/no loss' disposal between them as they are married. Jim is treated as acquiring the cottage for the price that Judy paid originally (so preserving the gain in his hands), as from the date of the inter-spouse disposal.

Jim manages the property as a qualifying furnished holiday let and after a year gives the property to their adult daughter, Louise, claiming hold-over relief so that Louise takes over her mother's historic base cost.

Louise subsequently occupies the property as her only or main residence. When the property is sold full PPR relief will be allowed.



Business Tax

Capital Allowances Must Be Claimed

Capital allowances are not given automatically. They must be claimed and they must be claimed within the time limit.

A claim can be made in the tax return. This will be the self-assessment return for an individual, the partnership return for a partnership or the corporation tax return for a company.

The time limit by which capital allowances must be claimed depends on the nature of the business:

- **Self-employed:** 12 months after the 31 January deadline for filing the return.
- **Partnership:** 12 months after the 31 January deadline for filing the return.
- **Company:** 12 months after the filing date for the return for the accounting period to which the claim relates.

Case Study:

Elizabeth is a self-employed caterer. She prepares accounts to 31 March and purchases various items of catering equipment during the year to 31 March 2014 in respect of which capital allowances are claimed.

She claims the allowances in her 2013/14 tax return, which is filed by the filing deadline of 31 January 2015.

The deadline for claiming capital allowances for 2013/14 is 31 January 2016. This is 12 months from the filing date for the 2013/14 return of 31 January 2015.

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