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| **Leicester Institute of Legal Practice****Legal Practice Course****Taxation****Capital Gains Tax****Pre-Session Quiz Answers** |

Pre session Quiz Answers

1. **What is the charge to capital gains tax?**

CGT is charged on the **chargeable gains** made by a **chargeable person** on the **chargeable disposal** of a **chargeable asset.**

**(b) What is the current CGT annual exemption for an individual?**

£12,300

**(c)** **Which of the following is NOT chargeable to capital gains tax?**

 **Shares**

 **Land**

 **Antique cabinet worth £12,000**

 **Sterling**

Sterling is NOT a chargeable asset and so CGT does not apply to it. The antique would also have been exempt if it had been worth less than £6,000 as this is an example of tangible moveable property.

1. **Jon, a higher rate taxpayer, gives a bottle of vintage wine worth £50,000 to his wife Jo. Jon purchased the wine five years ago for £40,000. What is Jon’s liability to CGT?**

No CGT liability will arise on the disposal to Jo as this is a disposal between spouses which are treated as being made for consideration which provides neither a gain nor a loss. The CGT liability will be deferred until Jo disposes of the asset.

1. **If A gives his share of a partnership business to his son will this be a chargeable disposal?**

Yes. Sales and gifts are classed as chargeable disposals. The gift is deemed to have been acquired at its market value on the date of the gift.

1. **Which relief would only be available to A if he gave his share of the partnership business to his son?**

 Holdover relief, S.165 TCGA.

1. **What criteria must be satisfied for this relief to apply?**

In order for holdover relief to apply the following criteria must be fulfilled:

* gift or sale at an undervalue
* business asset
* transferor and transferee agree to holdover.
1. **What are the two ways in which rollover relief can be used?**

Rollover relief can be used on the acquisition of a replacement asset S.152 (although this asset does not need to be identical to the asset sold) or on the incorporation of a business S.162 (e.g., a partnership incorporates to a company).

1. **How long does an individual have to buy a replacement asset if they want to utilise rollover relief?**

The individual can buy the replacement asset between 12 months prior to the disposal and 3 years after the disposal and still claim rollover relief.

1. **What are the potential tax planning problems involved with using the above reliefs?**

When advising a client to use rollover or holdover relief, consideration has to be had to the fact that if this relief are used the individual will not be able to use business asset disposal relief (formerly entrepreneurs relief) or the annual exemption.

1. **How does business asset disposal relief work?**

Business asset disposal relief charges a reduced rate of CGT of 10% to all gains that qualify for the relief. There is a lifetime limit of £1million on qualifying business disposals. Qualifying business disposals include disposing of shares in a personal trading co or disposing of a business owned as a sole trader or partnership as a going concern.

On the disposal of a sole trade/partnership: interest in business must have been owned for two years. The same conditions apply if the business is being closed and, in this situation, the business assets must also be disposed within 3 years to qualify for relief.

On the disposal of shares or securities: 2-year ownership is required, must be a trading company, for at least two years before the disposal, the business must be a ‘personal company’. This means that the person disposing of their shares has at least 5% of both the shares and voting rights.

They must also be entitled to at least 5% of either.

* profits that are available for distribution and assets on winding up the company; or
* disposal proceeds if the company is sold.

If the company stops being a trading company, you can still qualify for relief if you dispose of your shares within 3 years.

1. **If A made a qualifying business disposal resulting in a gain of £215,000, how much capital gains tax will A have to pay, if A had made no other chargeable gains in the tax year?**

The £215,000 would be reduced by the annual exemption of £12,300 which gives a gain of £202,700 that will be taxed at 10% giving a liability of £20,270.