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| **Leicester De Montfort Law School**  **Legal Practice Course**  **Taxation**  **Small Group Session: Capital Gains Tax** |

**Outcomes**

As a result of this Small Group Session, you will be able to:

* Understand how capital gains tax is calculated
* Calculate a chargeable gain
* Calculate how much capital gains tax is payable
* Understand when reliefs and exemptions are available and apply them to a set of facts
* Begin to consider tax planning points

**Materials and preparation needed**

For this Small Group Session, you must:

* Listen to the three on-line lectures (Taxation Lectures 7,8 and 9) relating to capital gains tax
* Read the chapter on capital gains tax in the online Legal Foundations Manual and the chapter on business reliefs from capital gains tax in the online Business Law and Practice Manual
* Complete the Pre-Session Quiz Questions and compare your answers to those provided online.
* Prepare an answer to Questions 1, 2 and 3
* Bring a calculator.

**Question 1**

James Goadby set up “Goadby Ink Ltd”, a company specialising in designing

company logos and stationery, etc., in May 1999. James is the sole director and 80% shareholder. The remaining 20% shareholding is owned by James’ brother, Andrew. James has 80,000 shares which he originally bought for £1 per share. His shareholding is currently valued at £140,000.

James has decided he has had enough of the “rat race” and wants to fulfil his

lifelong ambition to travel the world. He has agreed with Andrew to sell the

company in order to help finance his travels. James also intends to sell his

3% shareholding in Mouse Technology plc, an internet quoted company.

James’ shares are currently valued at £8,500. He purchased these in March

2011 for £6,500. James pays income tax at the basic rate.

**Calculate James’ capital gains tax liability on the sale of his shares in**

**“Goadby Ink Ltd” and “Mouse Technology plc”.**

**You may be asked to present your answer to the rest of the group.**

# Question 2

Sally, a sole trader, bought some premises to run her business from in

April 2009, for £80,000. She now wants to give the premises to her daughter

who is setting up her own business. Sally has found larger premises to move

her expanding business into.

**• Advise Sally what exemptions or reliefs she may be able to claim.**

**• What else will you need to know about Sally’s business in order to fully advise her?**

**• How would your advice differ if Sally was selling her sole trader business as a going concern?**

**Question 3**

Your Client is Matthew Bentley a partner in a shop fitting business with Jason

Winters and Edmund Newey.

Income profits and losses are split as follows:

Matthew 40%

Edmund 40%

Jason 20%

Capital profits and losses are split as follows:

Matthew 50%

Edmund 20%

Jason 30%

After trading successfully for 4 years as a partnership the partners decide to

incorporate the business into a private limited company by selling the partnership

business to a company that they instruct you to form on their behalf. Accountants

have valued the business at £170,000 as follows:

Leasehold premises £40,000.00

Goodwill £20,000.00

Motor vehicles £65,000.00

Debtors £5,000.00

Stock £10,000.00

Equipment £30,000.00

The partnership was valued at £100,000 when it was formed. No money has

been spent on improvements. The costs of setting up the partnership were

£2,000 and the costs of disposal are estimated at £2,000.

Matthew is a basic rate taxpayer.

**Matthew seeks your advice on whether the incorporation of the business**

**will have any capital tax implications. Assume that the partnership will be**

**transferred for full consideration but no decision has yet been made as to**

**whether the consideration should be in shares, cash, debentures or a**

**mixture.**

**What are the capital tax implications of the transaction for Matthew and consider his liability? Include any calculations and suggestions for capital tax planning in your answer.**