STARTING A PRIVATE PRACTICE

Capital gains tax can apply to YOU

Doctors who are new new to private practice often think they have to be wealthy to pay Capital Gains Tax (CGT) – but this tax affects many individuals, explains Ian Tongue

CAPITAL GAINS tax (CGT) is paid on gains arising from the disposal of capital assets as opposed to income tax, which is largely paid on earnings.

In 2008, new rules came into force to simplify CGT dispensing with the old 'indexation' and 'taper relief' calculations.

On the whole, CGT is easier to calculate than previously but following the jump in the CGT rate to 28% for higher-rate taxpayers, it is more expensive for many.

This article explores some of the more common areas of CGT, particularly for consultants.

What is CGT paid on?

CGT is paid on a variety of asset disposals but the most common for consultants are the disposal of investment properties and, in connection with their private practice, if goodwill has been recognised or the business sold to a third party.

In simple terms, if you buy an asset and sell it on for more money, you will need to consider whether CGT is payable.

Your accountant will obviously assist in this process, but it is important to make them aware of all gains.

Disposing of property

For many, their home is their most valuable asset. When climbing the property ladder, it is common for former homes to be retained and held as investments and with the stagnant housing market, this is likely to increase.

For your main residence, most people do not pay CGT when it is sold and this is due to Private Residence Relief (PRR).

However, if the property and its grounds exceed 1/2 hectare (just over an acre), the relief may be restricted, which is also the case if using part of the property to run a business from, and there are other restrictions.

If you own more than one property that you reside in, you can elect which is your main residence. An election of main residence should be made within two years from when you have the combination of residences. If no election is made, it will be determined by the facts.

Where a former main residence has been retained and let out, a further relief know as 'letting relief' is available.

For many, the combination of PRR and letting relief extinguish a significant proportion of the gain made.

Example of PRR

Surgeon Mr X purchased a house in 2000 for £300,000 and lived in it for three years before retaining it as an investment property and renting it out to a tenant until its sale in 2013 for £750,000.

Assuming a 13-year ownership period, the three years of occupancy are removed plus an additional 36 months as permitted in the rules. Therefore, the PRR available is 6/13 of the gain.

The gain arising is £450,000 (£750,000 - £300,000) and, therefore, £207,692 of the gain is removed using PRR, leaving £242,308.

As the property was rented out, a further relief is available known as 'letting relief'. This reduces the gain further but is limited to the lower of:

- £40,000;
- The PRR due (£207,692 above);
- Gain arising from the letting period (£242,308 above).

In the example above, the letting relief would be limited to £40,000.

Assuming Mr X has no other chargeable gains in the year, he would also be entitled to deduct his annual CGT allowance of £10,900 (2013-14).

So, after all reliefs available, a gain arises of £191,408 and CGT of £53,594 would be payable, assuming Mr X is a higher-rate taxpayer.

Tax-planning opportunities

With CGT being charged at 18% for basic-rate taxpayers and an annual allowance of £10,900 per taxpayer available, it is worth considering the ownership of your properties between you and your spouse or civil partner.

Provisions are available to transfer assets between husband and wife and civil partners without incurring a gain or loss for CGT purposes.

This can be a particularly tax-efficient planning tool but should be put in place well in advance of any asset disposals. Discuss your individual circumstances in more detail with your accountant to ensure that your position is optimised.

Selling goodwill

The sale of goodwill either to your own company under incorporation or a third party is subject to CGT.

However, subject to certain criteria being met, a special relief know as 'entrepreneurs relief' is usually available. This relief also extends to the disposal of certain assets owned personally by your business, again subject to set criteria.

Entrepreneurs relief is also usually available upon liquidation of your business at retirement, which can present a tax-planning opportunity depending on your circumstances.

The advantage of qualifying for entrepreneurs relief is to reduce the CGT rate down to 10% up to a maximum lifetime amount, currently £10m.

Capital losses

If you sell an asset subject to CGT and make a loss, this is offset against other capital gains in the same year with any balance of the loss being carried forward against future capital gains.

Therefore, it is very important to make your accountant aware of all disposals of property even if a loss arose.

Companies

Companies were not affected by the simplification rules in 2008. Therefore, the system for calculating gains involves looking at the original cost and uplifting it for inflation, which is known as 'indexation'.

The resulting gain is subject to corporation tax at the prevailing rate and no annual exemption is available for a company.

Before owning property within a company, you should discuss matters with your accountant, as – in some cases – more capital gains tax could be payable.

CGT affects a significant number of individuals in the UK and is certainly not just for the wealthy.

> **"Capital gains tax affects a significant number of individuals in the UK and is certainly not just for the wealthy"**

OTHER ASSETS SUBJECT TO CGT

- Shares, unit trusts and other investments
- Antiques, jewellery and other personal possessions if they are worth more than £6,000; for example, artwork
- Business assets including sale of goodwill
- Overseas assets if you are tax resident in the UK

ASSETS NOT SUBJECT TO CGT

- Your car
- Antiques, jewellery and other personal possessions if they are worth less than £6,000
- Stocks and shares in tax-free savings accounts; for example, ISAs and PEPs
- UK government securities
- Betting, lottery or pools winnings
- Personal injury compensation
- Foreign currency used for personal use outside UK

Discuss your intentions with your accountant, as tax-efficient planning can often take place to reduce or mitigate CGT.

■ **Next month: Capital Allowances explained**

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