

Nine capital gains tax surprises to watch out for...and ways to manage them

An unexpected capital gains tax (CGT) bill can be worrying, particularly if the sale or transfer was not something you had planned. But the initial calculation may not be the final amount you have to pay. Allowable costs, losses or tax reliefs may reduce the bill, and support may be available if you cannot pay it immediately. Your financial adviser will be able to help support you with any questions. In the meantime, here are nine common CGT surprises and the options that may help.

1. Selling an asset can trigger capital gains tax (CGT)

Selling a second home, land, investments or valuable possessions could create a taxable gain.

Ways to manage it: If you're planning to sell an asset, check whether you can use your annual CGT exemption. If you have already made use of this, consider transferring assets to a spouse or civil partner before selling them, if appropriate. This could enable you to make use of two tax exemptions.

When working out the gain, you may be able to deduct certain costs, including some buying, selling and improvement costs. You may also be able to use capital losses to reduce the amount of gain that is taxable.

2. It's the profit that's taxed, not the sale proceeds

CGT is based on the gain you make between buying and selling an asset, not the amount you receive from the sale.

Ways to manage it: Work out the likely gain you will make before selling, where possible. Make sure all allowable costs are included, such as certain legal, valuation and selling fees, as these could reduce the amount subject to tax.

3. The annual CGT exemption is much lower than it used to be

Many people are caught out because the CGT exemption has fallen from £12,300 in 2022/23 to £3,000 for the 2026/27 tax year.

Ways to manage it: Where appropriate, consider spreading disposals across different tax years so that more than one annual exemption may be available. Be aware, you can't carry forward any unused exemption. The individual annual exempt amount remains £3,000 for the 2026/27 tax year.

4. Gifting assets can trigger a CGT bill

Giving an asset to someone is usually treated as a disposal by HMRC, even if no money changes hands. The gain is generally based on the asset's market value at the time of the gift.

Ways to manage it: Check the tax treatment and obtain a valuation before making a gift. Transfers between spouses or civil partners may receive different treatment, while some business assets may qualify for gift Hold-over Relief. Take advice because inheritance tax may also need to be considered.

5. Different CGT rates may apply

The rate of CGT you pay can depend on your other taxable income. It is generally charged at 18% for basic-rate taxpayers and 24% for higher- and additional-rate taxpayers. Some or all of a gain may be taxed at the higher CGT rate if it takes you above the basic-rate tax band.

Ways to manage it: Before selling, look at the gain alongside your expected income for that tax year. An adviser or tax specialist can help you understand the likely rate and whether any reliefs may apply.

6. Poor record-keeping can prove costly

Without purchase records, valuations and evidence of costs, calculating gains accurately can be more difficult and may lead to mistakes.

Ways to manage it: Keep records of purchase prices, valuations, fees and improvement costs. Store tax documents securely and update records regularly. Good records can help ensure you claim all allowable deductions. If records are missing, seek appropriate evidence or a professional valuation rather than estimating the figures.

7. Ignoring an unexpected bill could make things worse

Taking action early may help you avoid additional penalties or interest charges.

Ways to manage it: Seek advice as soon as you become aware of a potential CGT liability. An adviser or tax specialist can check whether all allowable costs, losses and reliefs have been taken into account. If you cannot pay the tax in full, contact HMRC promptly to discuss the available options.

8. The timing of a sale matters

Spreading disposals across tax years may help you make use of more than one annual exemption and reduce the tax due.

Ways to manage it: If possible, consider whether you could either delay or bring forward a disposal, or think about selling assets in stages across separate tax years. It may also be possible to match gains with allowable losses made in the same year or brought forward from an earlier year.

Review planned sales well in advance of year-end deadlines. A structured approach may help you make the most of available allowances.

9. Not all investments are exposed to CGT

Investments held within an ISA or pension are generally sheltered from CGT. However, selling an existing investment before putting the money into an ISA or pension could itself create a taxable gain.

Ways to manage it: Consider using tax-efficient wrappers such as ISAs and pensions where appropriate, as any gains are free from CGT. It is important to review existing investments to understand their tax treatment. Future investment decisions can often play an important role in long-term tax planning.

The levels and bases of taxation, and reliefs from taxation, can change at any time and are generally dependent on individual circumstances.

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