MANAGING THE IMPACT OF CAPITAL GAINS TAX, FOLLOWING A PROPERTY SALE

For the last 15 years, Harry Wilkinson has owned 3 buy to let properties by the station in Brentwood. To reduce the headache of inheritance tax, coupled with dealing with property management going into his retirement, he decides to sell all of them. He initially paid £300,000 for the three properties, After selling them for a total of £700,000 net of solicitors and fees, He has a combined capital gain of £400,000.

He is now planning on investing into a tax efficient investment fund in order to defer the capital gain, along with helping him to shelter assets from inheritance tax when they are passed onto his children.

By investing the value of his gain (£400,000) into qualifying shares, Harry could defer his full capital gains tax bill of £112,000. He would also qualify for inheritance tax relief on his investment, providing he has held the shares for at least 2 years. He could then use the remaining £300,000 to pay off the remaining mortgages and fund his retirement.

On top of the capital gains & inheritance tax benefits, Harry would also be able to claim up to £120,000 of relief against his income tax bill (depending on the amount of income tax he has paid).

IF HE WERE TO INVEST THE FULL £400,000 GAIN, HARRY COULD RECEIVE:

- £120,000 of income tax relief
  (Provided he has paid this much income tax)
- £112,000 of capital gains tax deferred
  (Assuming 28% CGT on £400k gain)
- £160,000 of inheritance tax relief
  (Provided the shares are held for 2 years)

If Harry were to pass away 3 years after making the investment then his fund value would pass onto his children exempt from the 40% inheritance tax. His £112,000 of capital gains tax would also expire on his death.

GAINS CAN BE DEFERRED INDEFINITELY

CGT deferred through this type of tax efficient investment will remain deferred until the investment is sold. At that point, the gain can be deferred again by making a further investment. Harry may also be able to reduce the size of the investment needed to defer the gain, by using his annual CGT exemption for the year in which the gain revived. (£12,300 for 20/21).

IF HARRY DIES, HIS DEFERRED GAIN DOES NOT COME BACK INTO PLAY

If Harry defers CGT through this type of tax efficient investment and dies whilst still holding the investment, the capital gain essentially expires – his children, the beneficiaries, will not be liable for the original CGT bill.

IF HARRY DOES NO TAX PLANNING:

- He sells the properties, making a £400,000 capital gain.
- He pays £112,000 in capital gains tax. Leaving him with £288,000.
- £115,200 of potential inheritance tax when the assets are passed on.
- Leaving £172,800 from his gain of £400,000 which could be passed onto his children.

ASSUMPTIONS:

- *Harry is a higher rate tax payer and will continue to be in retirement.*
- *Harry has already used his allowances for inheritance and capital gains tax.*