

# Capital gains tax

on investments by individuals  
in UK stocks and shares

Whenever you sell or otherwise dispose of UK stocks and shares e.g. by gift, you need to consider the capital gains tax implications. Capital gains tax will be due on any gains made on the sale or gift of shares in the tax year once the cumulative total for the year exceeds your annual allowance and available losses.

This factsheet looks at the capital gains tax rules which apply to UK shareholdings owned by you as an individual and explains how you work out your total gains for the year. A worked example at the end demonstrates how to calculate your capital gains tax liability.

The tax treatment depends on the individual circumstances and may be subject to change in the future.

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## The basics

### What is capital gains tax?

Whenever you sell or gift UK stocks and shares ('shares'), you need to consider how the capital gains tax rules apply to the sale or gift.

Once you have calculated the position for each sale or gift, you then need to add all your gains and losses made in the tax year together to calculate your net chargeable gains.

If your net chargeable gains exceed your annual exemption, capital gains tax will be due at the appropriate rate of tax.

### What is the current rate of tax?

The rate of tax applied depends on how much taxable income you have received in the tax year.

Capital gains tax is charged at 10% for the amount of gains, which equals the amount of basic rate band remaining for income tax purposes. The 20% rate applies to the remainder of the gain. A worked example is provided at the end of this factsheet.

Shares which qualify for Business Asset Disposal Relief or Investors' Relief attract a lower rate of tax, but the relief is outwith the scope of this factsheet.

### Who is chargeable to capital gains tax?

Anyone who is UK resident for UK tax purposes will fall within the capital gains tax regime when shares are sold or gifted. Different rules may apply on the sale or gift of foreign stocks and shares, which are not considered in this factsheet.

Special rules, which are explained below, apply if you dispose of any UK shares after moving abroad and subsequently return to the UK.

If you are unsure of your UK residency position, you should seek advice from a tax adviser or consult your local tax office.

### What is my annual exemption?

For 2021/22, the annual exemption is £12,300.

### Can I carry forward any unused annual exemption or transfer it to someone else?

No. If you do not use all of your annual exemption in one tax year, it cannot be carried forward to a later tax year and will be lost. It is not possible to transfer any unused allowance to anyone else, including your spouse or civil partner.

### Do all disposals of shares fall within the capital gains tax regime?

No. Disposals of certain shares are exempt from capital gains tax. Exempt disposals will not incur any tax on any gains, but no tax relief will be available on any losses incurred. Disposals which are not exempt will be chargeable assets and within the capital gains tax regime.

Disposals of shares which are exempt include:

- shares held within tax efficient wrappers, such as a stocks and shares ISA or a pension; and
- shares in venture capital trusts, enterprise investment schemes and seed enterprise investment schemes, provided they qualify for the exemption.

### When is the tax due?

Tax is due by 31 January following the end of the tax year of the disposals.

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## Working out the capital gains tax position on each sale or gift of shares

### How do I start my capital gains tax calculations?

You need to consider each sale or gift of chargeable shares in the tax year separately.

For each disposal, you need to undertake the following calculation:

$$\begin{array}{r} \text{Net proceeds} \\ \text{Less:} \\ \text{acquisition costs} \\ \text{allowable expenditure} \\ \hline \text{Chargeable gain/loss} \\ \hline \end{array}$$

If the difference between the net proceeds and the total of the acquisition cost and allowable expenditure is positive, you have made a gain on the shares.

If the difference is negative, you have incurred a loss and you will need to apply the loss relief rules below.

## The values to include in your calculation

### How do I know what my net proceeds are?

When you have sold the shares on the open market, the net proceeds are the amount received, less any share dealing costs on the sale.

Special rules apply when you gift the shares (see below).

### How do I know what my acquisition cost is?

If you held the shares before 31 March 1982, the acquisition cost is deemed to be the market value as at 31 March 1982. For all shares acquired since 31 March 1982, your acquisition cost is:

- Shares purchased on the open market – the amount you paid, including any stamp duty and share dealing costs;

- Shares received as a gift – the market value on the date of the gift, even if you have paid some money towards the shares; and
- Shares inherited following a death – the market value on the date of the deceased's death, which will be the value included in any probate calculations.

Whenever you are disposing of shares, you also need to consider the share matching rules.

### What are the share matching rules?

Any shares disposed of must be matched against shares of the same class purchased in a particular order. Since 6 April 2008, shares disposed of will be matched against other shares in the same class in the following order:

1. Any shares purchased on the same day;
2. Any shares purchased within the next 30 days;
3. Any other shares held in your section 104 share pool.

The section 104 share pool includes all shares purchased prior to the current disposal. Their total acquisition cost is the cumulative total of all shares included in the pool, less the acquisition cost of any previously disposed of shares.

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### What is allowable expenditure?

Allowable expenditure includes the following:

- Share dealing costs on purchase;
- Stamp duty paid on the purchase of the shares; and
- Share dealing costs on the disposal (if they have not already been deducted in calculating the net proceeds).

### What is my acquisition cost for a shareholding which I have built up over some time?

The acquisition cost of shares purchased in several transactions, including either lump sum payments or as part of a regular investment programme, is the sum of the purchase price paid in each separate purchase.

Shareholding 1 in the worked example demonstrates how to calculate the acquisition cost of shares purchased over several transactions.

### What happens if I have acquired additional shares through a DRIP (dividend reinvestment programme) or SCRIP (issuing new shares to existing shareholders in lieu of a cash dividend) programme?

The acquisition cost of the additional shares received through either programme is the cash equivalent of the shares as follows:

- DRIP shares – the net dividend used to fund the purchase of the additional shares;
- SCRIP shares – usually the amount of dividend alternative available.

If further shares are acquired through a DRIP or SCRIP scheme within 30 days of any disposal within the shareholding, the extra shares fall within categories 1 or 2 of the share matching rules above.

### What happens if I hold accumulation units?

If you hold accumulation units, the income accumulated is added to the original acquisition cost of your units. If you receive an equalisation payment at the same time as the first income accumulation, you should deduct this from your acquisition cost.

Shareholding 2 in the worked example demonstrates how to calculate the base cost of accumulation units.

### What happens if I only dispose of some of my shares?

If you only dispose of some of your shares, you have made a part disposal. You must apply the following formula to calculate your acquisition cost.

$$\text{Acquisition cost of all the shares} \times \frac{A}{(A + B)}$$

A = the number of shares disposed of

B = the number of shares retained

The second part of Shareholding 1 in the worked example shows the calculation of the acquisition cost on a part disposal.

## Special rules – loss relief

### What happens if I have sold my shares for less than I paid for them?

If the purchase price and any incidental costs are greater than the amount you received on the sale, you have incurred a capital loss which can be offset against other chargeable gains.

You must offset a current year loss against other gains made in the current year, even if this means that you do not have sufficient gains to utilise the annual exemption in full.

Shareholding 3 in the worked example demonstrates setting allowable losses against chargeable gains made in the same year.

### What happens if I have offset my loss against other gains made in the same tax year and I still haven't used up my loss in full?

If your loss is greater than your chargeable gains in the current year, you can carry the excess loss forward to set against gains in future tax years.

### How do I use losses carried forward to later years?

When you carry forward your loss to future years, you can use this to reduce your chargeable gains down to the annual exemption in that year and carry any remaining balance forward.

#### Example

Stan, who is UK resident, sells 10,000 shares in Henman Plc for £15,000 in May 2019. He paid £20,000 for them in June 2018. He has no other disposals in the year, so his £5,000 loss is carried forward.

In July 2021, Stan disposes of 4,500 shares in Dobson Limited for £30,000. He paid £15,000 for them in June 2016. He makes no other disposals in the year.

	£
Net proceeds	30,000
Less acquisition cost	-15,000
<b>Chargeable gain</b>	<b>15,000</b>
Less losses brought forward	-2,700
<b>Chargeable gain</b>	<b>12,300</b>

The annual exemption for 2021/22 is £12,300. This means that he has no capital gains tax liability for the year, as he has reduced his gains down to the annual exemption.

Stan has £2,300 of unused losses available to set against gains in future years.

### What happens if I own shares which have become worthless?

If you own shares which have become worthless since you acquired them, you can make a negligible value claim.

The effect of the claim is to treat the shares as having been disposed of for nil disposal proceeds and reacquired with no acquisition cost. If the shares recover in value later on, you will be taxed on any gain over the new nil acquisition cost when you finally dispose of the shares.

You can elect to apply the negligible value claim in the current tax year or either of the two tax years prior to the year of the claim.

So if you make a negligible value claim during 2021/22, any loss resulting from the deemed disposal will arise in 2021/22 unless you make a claim for the loss to be treated as if you had disposed of the shares at a time falling in 2019/20 or 2020/21.

The loss is usually treated as a capital loss. In some circumstances, it may be possible to claim income tax relief on the loss instead.

#### Example

Tomas bought 10,000 shares in Djokovic Limited for £8,000 in January 2009. The company experienced trading difficulties after the financial crisis and finally went into receivership in July 2019. HMRC agrees that a negligible value claim is available from 2019/20 onwards.

Tomas can claim a negligible value claim in 2021/22 or either of 2019/20 or 2020/21. The best tax year to make the negligible value claim will depend upon Tomas's individual circumstances, as it will be treated as a loss under the normal loss relief rules.

Tomas decides to make the negligible value claim in 2020/21, as he has other gains totalling £20,000 in the tax year.

## Special rules – gifts

### What happens if I transfer a shareholding to my husband, wife or civil partner?

Transfers between spouses or civil partners who live together are treated as a 'no gain, no loss' transfer. This means that no capital gains tax will be due on the transfer between spouses and civil partners, and the transferee's acquisition cost of the shares will be the original acquisition cost. Capital gains tax will only become due when the transferee sells or gifts the shares if the transferee's net chargeable gains in that year exceed their annual exemption.

The no gain, no loss rules do not automatically apply on the transfer of assets as a result of a separation, divorce or dissolution of a civil partnership.

#### Example

Stan also owns 10,000 shares in Ferrer Plc. His acquisition cost is £10,500.

He transferred them to his wife, Venus, in 2015. The proceeds were deemed to be £10,500 (a transfer at no gain no loss).

In the 2021/22 tax year, Venus sells the shares for £12,000. Her chargeable gain is:

	£
Net proceeds	12,000
Less acquisition cost	-10,500
<b>Chargeable gain</b>	<b>1,500</b>

If this is her only disposal in the year, no capital gains tax will be due, as the gain will be covered by the annual exemption. She will be liable for capital gains tax if she has total gains after loss relief exceeding the annual exemption.

### What happens if I gift my shares to someone other than my spouse or civil partner?

If you gift your shares to someone other than your spouse or civil partner, you are treated as making a disposal and your proceeds are deemed to be the market value of the shares as at the date of the gift. Any gain is included in your capital gains tax calculation as usual.

Any losses can be offset under the normal rules, unless the gift was made to any of the following:

- A relative
  - Sibling
  - Ancestors (parents or grandparents)
  - Descendants (children and grandchildren)
- The spouse or civil partner of a relative
- A trust

These losses can only be offset against a gain made on another disposal to the same person in the same or future years.

## Special rules – moving abroad

### What happens if I sell my shares after moving abroad?

If you sell shares which you owned before you left the UK while you are living abroad, capital gains tax will be chargeable on any gains made on the sale in the tax year that you return to the UK if all of the following rules apply:

- You were resident in the UK for tax purposes for at least 4 of the 7 tax years prior to your departure from the UK;
- At the date of sale, you were either:
  - Not resident in the UK for UK tax purposes; or
  - Dual resident i.e. the UK was not your sole residence for UK tax purposes; and
- You resume sole residence in the UK for tax purposes within 5 tax years of your departure from the UK.

You may be able to claim double taxation relief if you have paid overseas tax on the sale of your shares.

There is currently no charge to capital gains tax if you dispose of any shares which you have both acquired and disposed of while you are not resident in the UK for tax purposes.

## Summary

- Capital gains tax may be due whenever an individual makes an overall gain on the sale or gift of an asset.
- When calculating the gain or loss on the sale or gift of a shareholding, you need to consider the rules which apply in the particular circumstances of the sale or gift.
- If you have made a loss on the sale or gift of any shares in the current year or have losses brought forward from earlier years, you will need to consider the loss relief rules.
- Individuals are entitled to an annual exemption. This means that, after you have considered loss relief, your total gains for the year up to the value of the annual exemption do not incur a capital gains tax charge.
- Once your gains have exceeded the annual exemption, the rate of tax is either 10% or 20% and the applicable rate depends on your income tax position for the year.

## Worked example – Calculating the Capital Gains Tax liability

David, who is UK resident, made the following disposals in 2021/22 and had no capital losses brought forward. His taxable income after utilising the personal allowance was £36,700.

### Shareholding 1 – Nadal Plc

David purchased 10,000 shares in Nadal Plc as follows:

2,000 in January 2006 for £6,000  
 1,000 in February 2006 for £3,500  
 1,000 in August 2011 for £4,500

In June 2016, David decides to purchase 500 shares a month for 12 months. The monthly subscriptions total £6,750.

In July 2021, David sells 6,000 shares in Nadal Plc and receives net proceeds of £32,650.

His total acquisition cost of £20,750 is calculated as follows:

Number of shares	£
2,000	6,000
1,000	3,500
1,000	4,500
6,000	6,750
<b>10,000</b>	<b>20,750</b>

His chargeable gain is therefore calculated as follows:

	£
Net proceeds	32,650
Less acquisition cost	
£20,750 x	6,000
	(6,000 + 4,000)
<b>Chargeable gain</b>	<b>20,200</b>

### Shareholding 2 – Federer Accumulation Units

David sells 5,000 units in Federer Accumulation Units for £11,800 in August 2021. He purchased them for £10,000 in July 2017.

The following notional income was declared and accumulated within the units (totalling £335):

September 2017 £50  
 September 2018 £80  
 September 2019 £95  
 September 2020 £110

In September 2017, the equalisation payment is £35.

His chargeable gain is therefore:

	£
Net proceeds	11,800
Less acquisition cost	
Original acquisition cost	10,000
Accumulated income	335
Less equalisation payment	-35
	-10,300
<b>Chargeable gain</b>	<b>1,500</b>

### Shareholding 3 – Murray Limited

David bought 2,000 shares in Murray Limited for £10,000 in July 2006. David sells them for £1,750 in September 2021. His allowable loss is:

	£
Net proceeds	1,750
Less acquisition cost	-10,000
<b>Chargeable gain</b>	<b>-8,250</b>

His allowable loss is £8,250. David can offset this against his gains in Shareholding 1 and Shareholding 2.

### Summary

David's net chargeable gains are

	£
Shareholding 1	20,200
Shareholding 2	1,500
Shareholding 3	-8,250
<b>Total net chargeable gains</b>	<b>13,450</b>

Less annual allowance	-12,300
<b>Gains chargeable to tax</b>	<b>1,150</b>

10% rate – £1,000 (see below)	100.00
20% rate – £150	30.00
<b>Total CGT due</b>	<b>130.00</b>

As the basic rate band for 2021/22 is £37,700, this means that £1,000 of the basic rate band is still available, and the chargeable gains falling within the basic rate band will be taxed at 10%.

The remaining £150 of chargeable gains will be taxed at 20%.

The CGT liability is due to be paid by 31 January 2023.

If David's income after the personal allowance had been £37,700 or more, the whole of the gain would have been chargeable at 20%.

## Further information



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