

# Capital Gains Tax: Annual Exempt Amount

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## Who is likely to be affected?

Individuals, trustees and the personal representatives of deceased persons who have capital gains.

## General description of the measure

This measure sets the capital gains tax (CGT) annual exempt amount (AEA) for 2012-13 at £10,600, keeping it at the same level as for 2011-12. It also provides for the AEA to rise in line with the Consumer Prices Index (CPI) instead of the Retail Prices Index (RPI) from 2013-14 onwards. Automatic indexation of the AEA using the CPI will still be subject to override if Parliament determines a different amount should apply.

## Policy objective

Freezing the AEA forms part of the package of measures to freeze tax and benefits thresholds as part of the Government's commitment to tackle the budget deficit. The switch to CPI from RPI from 2013-14 reflects the Government's decision to move the underlying indexation assumption for all direct taxes to CPI.

## Background to the measure

In the June Budget 2010 the Government announced a review of how the "CPI can be used for the indexation of taxes and duties while protecting revenues."

The change in the underlying indexation assumption for the AEA was announced at Budget 2011.

The decision to keep the AEA at its current level of £10,600 for the year 2012-13 was announced on 29 November 2011.

## Detailed proposal

### Operative date

The changes will have effect for the tax year 2012-13 and later years.

### Current law

Section 3 of the Taxation of Chargeable Gains Act 1992 (TCGA) provides that individuals pay CGT only on their chargeable gains (net of allowable losses and all other reliefs) that exceed the AEA for the tax year.

Section 3(2) sets the AEA for the year.

Section 3(3) increases the previous year's AEA automatically by the percentage increase in the RPI in the 12 months to September of the previous tax year, rounded up to the nearest £100. Parliament can override the automatic increase by setting a higher or lower figure. The RPI is defined in section 288(2).

Section 3(4) requires HM Treasury to issue an order setting out the AEA for the new tax year if automatic indexation applies.

Section 3(7) entitles personal representatives to the AEA for the tax year in which the deceased dies and the next two tax years. Section 3(8) of and Schedule 1 to TCGA provide rules for certain trustees to qualify for an AEA. In most instances trustees are entitled to half the AEA available to individuals.

## Proposed revisions

Legislation will be included in the Finance Bill 2012 to replace the reference to the RPI in section 3 TCGA with a reference to the CPI. Rounding up to the nearest £100 will continue. The legislation will also set the AEA for 2012-13 at £10,600, keeping it at the 2011-12 level. Automatic indexation by reference to the CPI will start from 2013-14 (based on the increase in the CPI for the 12 months to September 2012).

Automatic indexation of the AEA may still be overridden for a tax year if Parliament sets a different figure. HM Treasury will still make an order setting out the AEA for the new tax year under automatic indexation. Personal representatives of deceased persons and trustees will be entitled to AEA in the same way as they are now.

## Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
	-	nil	+25	+25	+25	+30
	These figures are set out in Table 2.1 of the Autumn Statement and have been certified by the Office of Budget Responsibility. More detail can be found in the policy costings document published alongside the Autumn Statement.					
<b>Economic impact</b>	The change proposed is not expected to have any significant economic impact.					
<b>Impact on individuals and households</b>	<p>There will be an impact on individual and household's compliance costs as increasing the AEA at a lower rate over time could lead to around 60,000 more individual tax returns with a CGT liability being submitted between 2012-13 and 2015-16. However, the number of individuals affected is likely to be lower as some individuals will have a CGT liability in more than one of these years. Furthermore, it is expected that some taxpayers will arrange their disposals in such a way that the gains they make in any one year will remain below the AEA and no CGT will be payable.</p> <p>Administrative burdens on individuals are likely to be small. The impact will be further limited given that a significant proportion of those individuals affected are likely to be within the Self Assessment system.</p>					
<b>Equalities impacts</b>	<p>The gender split for CGT payers is relatively stable over time, with men making up around 60 per cent of those filing a tax return that includes a capital gain and women making up around 40 per cent. Those aged between 45-50 and 55-60 years are most likely to file a return that includes a capital gain.</p> <p>A change in the AEA rate is not expected to have a disproportionate impact on any protected group.</p>					
<b>Impact on business including civil society organisations</b>	No significant impacts on business and the civil society sector, the majority of which will either pay corporation tax on gains (companies) or be eligible for exemptions (charitable gifts), are envisaged.					

<b>Operational impact (£m) (HMRC or other)</b>	There will be a negligible operational impact on HMRC.
<b>Other impacts</b>	This measure is not expected to have any other significant impacts.

### **Monitoring and evaluation**

The impact of the measure will be monitored through information collected from tax returns.

### **Further advice**

If you have any questions about these changes, please contact Craig Griffith on 0207 147 3395 (email: [craig.griffith@hmrc.gsi.gov.uk](mailto:craig.griffith@hmrc.gsi.gov.uk)).

## **1 Annual exempt amount**

- (1) TCGA 1992 is amended as follows.
- (2) In section 3 (annual exempt amount), for the figure specified in subsection (2) substitute “£10,600”.
- (3) In that section –
  - (a) in each of subsections (3), (3A), (3B) and (4), for “RPI” substitute “CPI”, and
  - (b) in subsection (3A), for “retail prices index” substitute “consumer prices index”.
- (4) In section 288 (interpretation), after subsection (2) insert –

“(2A) In this Act “consumer prices index” means the all items consumer prices index published by the Statistics Board.”
- (5) The amendment made by subsection (2) has effect for the tax year 2012-13 and subsequent tax years.
- (6) Section 3(3) of TCGA 1992 (indexation) does not apply in relation to the tax year 2012-13.
- (7) The amendments made by subsections (3) and (4) have effect for the tax year 2013-14 and subsequent tax years.

**EXPLANATORY NOTE**

**ANNUAL EXEMPT AMOUNT**

**SUMMARY**

1. This clause sets the capital gains tax annual exempt amount (AEA) at its current level of £10,600 for 2012-13 and requires that it rises in line with the Consumer Prices Index (CPI) instead of the Retail Prices Index (RPI) from 2013-14 onwards. Automatic indexation of the AEA using the CPI remains subject to override if Parliament determines a different amount should apply.

**DETAILS OF THE CLAUSE**

2. Subsection (2) provides the AEA to be used in section 3(2) of the Taxation of Chargeable Gains Act (TCGA) 1992.
3. Subsection (3) replaces references to “RPI” and “retail prices index” in section 3 with “CPI” and “consumer prices index”.
4. Subsection (4) inserts a definition of “consumer prices index” in section 288 of the TCGA 1992.
5. Subsection (5) states that the figure inserted by subsection (2) of this clause is the AEA for tax year 2012-13 and the base figure to be indexed in future tax years.
6. Subsection (6) disapplies automatic indexation for tax year 2012-13 in order that the AEA for that year is instead the figure inserted by subsection (2).
7. Subsection (7) provides that subsections (3) & (4) have effect for the tax year 2013-14 onwards.

**BACKGROUND NOTE**

8. Currently, where the RPI for the month of September is higher than the figure for the previous September, the level of the AEA for the following tax year increases in line with the percentage increase in the RPI, unless Parliament sets a different level.
9. At the Autumn Statement 2011, the Chancellor announced that the AEA for the tax year 2012-13 will be frozen at its current level of £10,600 and the planned switch from RPI to CPI, announced at Budget 2011, will take place from 2013/14.
10. If you have any questions about this change, or comments on the legislation, please contact Craig Griffith on 020 7147 3395 (email [capitalgains.taxteam@hmrc.gsi.gov.uk](mailto:capitalgains.taxteam@hmrc.gsi.gov.uk)).