YOUR GUIDE TO: CAPITAL GAINS TAX

2025/26

clarity

Tax. Almost never welcome and rarely of interest. However, we all, of course, have to pay it. And a small amount of knowledge and forward planning can really lessen the pain.

We are often asked how capital gains tax (CGT) actually works and, as you might expect, **how it can be reduced**. This guide provides a step-by-step summary of the calculation of CGT and highlights some of the main planning points and deadlines to be aware of.

CGT planning doesn't just apply to gains. Given the market turbulence in recent years, you may find yourself with realised or inherent **capital losses**. These can be a **valuable part of your overall tax strategy**, and it is important that planning around losses is not neglected - particularly in light of the **significant reductions in the amount of tax-free gains you can realise each tax year** (see next page).

Tax planning is part and parcel of how we help our clients achieve their financial goals. Whatever the specific tax, our advice is designed to help you take the obvious (and sometimes not so obvious) tax wins - all helping to make your pounds stretch further.

Please note that this guide is intended as a broad overview. Tax can be a fiendishly complex subject and, as always, it can be good value to employ an expert's time and expertise. We recommend seeking advice from a suitably qualified tax accountant if in any doubt.

The information provided applies to UK Resident individuals only, and our examples assume a reasonably sized investment portfolio with multiple potential tax points. Trusts, estates, and companies (as well as non-UK persons) have their own tax rates and rules.

CGT: YOUR OBLIGATIONS

- To **avoid unnecessary tax, costly penalties and even fines**, it is vital you understand **what** is required and **when**, even before sales/disposals are made.
- You need to **keep records now** to support all the figures you may use in your future tax returns.
- You need to know the rules around **reporting and payment deadlines**.
- If the disposal amount is over a set limit, you **may have to report the sale even where there is no tax to pay**.
- For taxable disposals of **UK residential property* you only have 60 days** to report and pay any tax due.

Pages 4-5 of this guide provide answers to some of the most frequently asked questions we receive about CGT. Pages 6-17 provide a step-by-step summary of how to manage your capital gains in the most tax-efficient way, with a number of examples.

*Excluding your home/main residence

CGT rates[1]	Basic rate taxpayer	Higher rate + taxpayer
Main rate	18%	24%
Business assets disposal relief[2]	14%	
Investors relief[2]	14%	

1 CGT rates for all disposals, other than residential property, 6 April 2024 to 29 October 2024 were 10%/20%

2 BADR and IR rates will increase on 6 April 2026 to 18%

The annual exempt amount for capital gains has been reduced significantly in recent years, to just £3,000 in 2025/26. This makes good planning around losses even more important.

FAQs

Seriously, I've got a life. Won't HMRC just sort all this out for me?

Sorry, no. Individuals are personally responsible for making timely and accurate CGT returns. You can use an adviser or accountant to help you. But the ultimate responsibility still lies with you.

Can't I just sell now and think about the tax stuff later?

You can. But it could cost you. There might be any number of ways that you can plan your sales to minimise the tax payable or improve your overall tax position, for example:

Consider the **strategic realisation of other gains and losses** in the tax year, to target the efficient use of the annual exemption and any available losses.

Use **inter-spouse transfers** so both annual exemptions are fully used in each tax year.

Consider your current and prospective **marginal tax rates** to make sure the tax is calculated at the most efficient time for you.

Use **tax wrappers and investment vehicles** that can maximise the tax efficiency of your portfolio, where these are appropriate for you (e.g. ISAs, pensions, investment bonds, VCTs, EIS, SEIS). These are all options your clarity adviser would consider when putting together a comprehensive plan for you.

Yikes, there will be a taxable gain. Should I hold off selling?

Probably not. You may be tempted to delay any portfolio updates and rebalances due to potential tax consequences but:

This simply delays the point at which you dispose of a potentially underperforming fund, or means that your overall asset allocation is out of line with your target risk exposure. The **additional investment risk** or **underperformance risk** may significantly **outweigh any short-term pain in paying tax**.

The **further reduction in the CGT annual exemption to £3,000** this year has increased the chances that larger unwrapped portfolios will have to suffer some level of taxable gain if they are to remain effectively managed.

You should, however, **review your overall strategy** to make sure you are structuring sales efficiently to make full use of reliefs and tax wrappers for your investments, as appropriate for you. Your adviser can look at the whole picture to make sure your tax position is as efficient as possible.

FAQs

Yikes, there will be a taxable loss. Should I hold off selling?

Probably not. As with a gain, the most important thing is that your overall investment strategy remains right for you, regardless of the initial cost of investment.

It is very human to instinctively anchor your strategy to take account of the original cost of investment, which makes us reluctant to sell investments at a loss. This is a common cognitive bias to watch out for; **the original cost is in the past, it doesn't affect the value of the investment to you right now**. It is the prospective value, and continuing appropriateness of the investment for your timescale and goals, which is of relevance to your decision.

The **strategic generation and use of capital losses can help to effectively manage your taxes**, offset gains, and potentially reduce your overall tax burden – but only if you claim them, as outlined in this guide.

EXAMPLES

I hadn't really considered using losses before. What do I need to know?

All current year losses and gains, in their entirety, must be added together before the annual exemption is applied. So the **full current year loss is used, whether or not it is of value to you**. You could consider whether the realisation of some of the loss might be deferred to a later tax year, to enable full use of the annual exemption - meaning full value can be gained from the loss (see page 13 for an example of how this works).

Excess losses in a year can be carried forward. But only if you claim them, and continue to claim every subsequent year until you want to use them.

Brought-forward losses are treated differently to current year losses. Here you can choose the amount of brought-forward loss to use against current year gains. It makes sense to only use the amount of loss which leaves a net gain equal to the annual exemption. More loss then remains to be carried forward to future years.

OK, I probably do need to know this stuff. Where can I find out more?

You're in luck! This guide takes you through the basics, with a step-by-step 'how to' on the following pages. And the clarity team are always available to help with any questions. Just contact us if you would like to go over a specific query (see page 18 for contact details).

TAX-EFFICIENT CAPITAL GAINS: A STEP-BY-STEP GUIDE

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STEP 1: WORK OUT THE GAIN/LOSS ON EACH INDIVIDUAL SALE

To work out the chargeable gain or allowable loss on each asset sold during the tax year, you need to know:

1. **Disposal proceeds:** usually the actual sale price. If the asset is gifted, or for transactions with a connected person or not at 'arms length', market value is used instead.
2. **Acquisition base cost:** usually the purchase price. As for disposal proceeds, market value is used in certain situations. Where holdover relief has been previously claimed, or the asset has been received from a spouse (nil gain/nil loss transfer), the original owner's base cost is used.

The base cost is deducted from the disposal proceeds.

3. **Other costs:** any allowable costs incurred in sale, purchase or improvement of the asset can also be deducted. Not all improvement costs are allowable – they must be capital costs undertaken to enhance the value of the asset, which are reflected in the asset value on sale. Regular (revenue) costs such as repair and maintenance may not be allowable. This is a potentially complex area where HMRC provides useful guidance. As always, sufficient records must be kept to support any claim.

CGT & The Family Home: clarity Research Note

The CGT rules are extensive, and it is impossible to cover all the nuances here. The most common quirks to be aware of include:

- **Exemptions:** there is no CGT on certain assets. These include **wasting assets** with a lifespan of under 50 years (such as private cars), **chattels** (which are personal items sold for less than £6,000), **UK gilts** and **betting wins**.
- **Shareholdings:** special rules apply to multiple shareholdings in the same entity (including most collective funds), which must generally be 'pooled' to determine the base cost. Additional rules apply to disposals within 30 days of purchase. VCT, EIS and SEIS shareholdings have specific rules.
- **Selling a property you have lived in:** special rules apply to the sale of your 'principal private residence'.
- **Pre-1982 acquisitions:** assets acquired before 1 April 1982 are deemed to have a base cost as at 31 March 1982, and costs incurred before this date are not allowed.
- **HMRC CGT Summary Notes:** HMRC publishes helpful notes for completing the CGT pages of your tax return each year, including further information on allowable costs.

HMRC CGT Guidance Note

EXAMPLE: SINGLE ASSET GAIN/LOSS CALCULATION

Sam bought a holiday cottage on the Isle of Wight for £200,000 in 2019, paying legal costs and stamp duty of £1,500. They spent £40,000 on an extension, which is an allowable capital cost, and a further £10,000 on repair and decoration, which are non-capital and cannot be deducted. They sold the cottage for £275,000 in May 2025, with estate agency and legal costs of £3,500. The chargeable gain is calculated as:

	£	£
Disposal proceeds		275,000
Acquisition base cost	200,000	
Cost of acquisition	1,500	
Enhancement expenditure (capital only - extension)	40,000	
Disposal costs	3,500	
Total deductions		(245,000)
Chargeable gain/(loss)		30,000

As this is a disposal of UK residential property, Sam must report the gain and pay any tax due (after deducting the CGT annual exemption if appropriate) within 60 days of sale (usually the completion date).

STEP 2: ADD UP ALL OF YOUR GAINS AND LOSSES IN THE TAX YEAR

Any losses realised in the tax year must be fully set against the gains realised in that tax year.

IF THE TOTAL IS A LOSS

- Claim to carry this forward, so you can use it to reduce taxable gains you might make in future years.
- The claim can be made via your tax return, or by writing to HMRC if you are not registered for self-assessment.
- The amount of loss carried forward must be claimed each year.
- You have until four years after the end of the tax year in which you disposed of the asset to make the claim (unless the loss was made before the 5th April 1996 in which case it can still be claimed).
- You can't claim losses on assets you dispose of to your spouse or a connected person.

IF THE TOTAL IS A GAIN

- If you have brought-forward losses to use: **go to step 3**
- If you do not have brought-forward losses to use: **go to step 4**

STEP 3: DEDUCT ANY BROUGHT-FORWARD LOSSES

If you have brought-forward losses from past years, which you have claimed as per step 2, then you can use these to reduce your taxable gain in this current year.

You can choose what level of brought-forward losses to use against current year gains.
This is different to the rules for current year losses, which have to be fully set against current year gains.

- **It does not make sense to use brought-forward losses to reduce current year gains to zero.**

  You can instead target a net gain, after brought-forward losses are used, equal to the level of the annual exemption (see step 4).

  Occassionally, if you anticipate gains at a higher rate in future years, you may instead wish to leave enough gains to use a lower-rate tax band.

- If you do not fully use all of your brought-forward losses in the current year, then **you must claim to carry the unused amount forward each year** (see step 2). They then remain available for use against future gains.

STEP 4: DEDUCT THE CGT ANNUAL EXEMPTION

The CGT annual exempt amount, or annual exemption, is £3,000 for 2025/26.

- This is the **maximum amount which can be used**: if total (net) gains are lower than this then the amount which can be used is limited by the level of total net gain. In other words, **the annual exemption cannot be used to create a loss**.
- **Any unused exemption cannot be carried forward**: it therefore makes sense to maximise use of this each tax year by, for example:
- Targeting specific current year gain and loss figures to leave a total gain around this level.
- Making good use of brought-forward losses (see step 3).
- For spouses and civil partners, making use of the nil gain/nil loss provisions on inter-spouse transfers to maximise use of both annual exemptions.
- **You can choose to use the exemption in whichever way minimises the tax you pay.**

EXAMPLE: GAINS AND LOSSES REALISED IN THE SAME YEAR

Ash realised the below chargeable gains and losses during the 2025/26 tax year:

	Chargeable gain/(loss) £
Shareholding in family company (May 2025)	**28,000**
Entire holding of ABC unit trust (January 2026)	**5,000**
Entire holding of XYZ unit trust (March 2026)	**(32,000)**
Total gain/(loss) in 2025/26	**1,000**
Less CGT annual exemption*	**(1,000)**
Taxable gain 2025/26	**nil**

*Deduction restricted to the level which brings the taxable gain down to nil

Here, the loss Ash realised by selling XYZ brings the total gain to only £1,000, which is reduced to zero after the annual exemption is deducted.

Ash may think this is an excellent result, given the potential gains of £33,000 before selling XYZ. They aren't overly worried by the loss on XYZ itself, as they are investing in that sector for the long term and will reinvest in an alternative unit trust, where they anticipate the value recovering over the longer term.

But they could have done even better – see next page.

EXAMPLE: MAXIMISING USE OF EXEMPTION IN YEAR WITH LOSSES

Problem: incomplete use of the CGT annual exemption.

The CGT annual exemption is £3,000 this year. In the example on the previous page, Ash used only £1,000 of this and any unused exemption cannot be carried forward.

Solution: target the level of gains and losses realised to maximise the use of the annual exemption, where possible.

In the example below, Ash instead takes advice prior to acting and sells fewer shares in XYZ to realise a loss of £30,000. They then sell the remainder of the XYZ holding in the new tax year, 6 April 2026, to realise a useable capital loss of £2,000 in 2026/27 (assuming no large market movements in the meantime). This can be used to set against other gains realised in 2026/27, or if not used then claimed and carried forward to use against future gains.

	Chargeable gain/(loss) £
Shareholding in family company (May 2025)	28,000
Entire holding of ABC unit trust (December 2025)	5,000
Shares in XYZ unit trust (March 2025)	(30,000)
Total gain/(loss) in 2025/26	3,000
Less CGT annual exemption*	(3,000)
Taxable gain 2025/26	nil
Remaining Shares in XYZ sold 6 April 2026	(2,000)

STEP 5: CALCULATE THE TAX PAYABLE

In practice, once you have submitted your chargeable gain/loss figures to HMRC, they will calculate the tax payable for you, so you don't actually have to complete this step yourself. However, when planning, you will probably want to understand how much tax might be incurred.

The rate of CGT you pay depends upon your marginal rate of income tax.

To calculate what you may owe, add your taxable gain to your taxable income for the year. This determines which income tax band the gains fall into. Then apply the relevant CGT rate for the amount of the gain falling into that band (see page 15 for an example):

- Those whose income means they are already higher and additional rate income taxpayers will pay CGT at 24% on the whole of the taxable gain.
- Those whose income means they are nil or basic rate income taxpayers will pay CGT at 18% for the amount of taxable gain which falls into the (remaining) basic rate tax band. If the level of income plus the gain means some of the gain falls into the higher rate band, the higher rate of 24% is charged on that portion.
- Disposals of residential property are subject to additional reporting and payment requirements as outlined on page 17.
- **If Business Asset Disposal Relief or Investors Relief applies, then the CGT rate applying reduces to 14% (18% from 6 April 2026) regardless of which income tax band the gain falls into.**

EXAMPLE: CALCULATING CGT ACROSS BASIC & HIGHER RATE BANDS

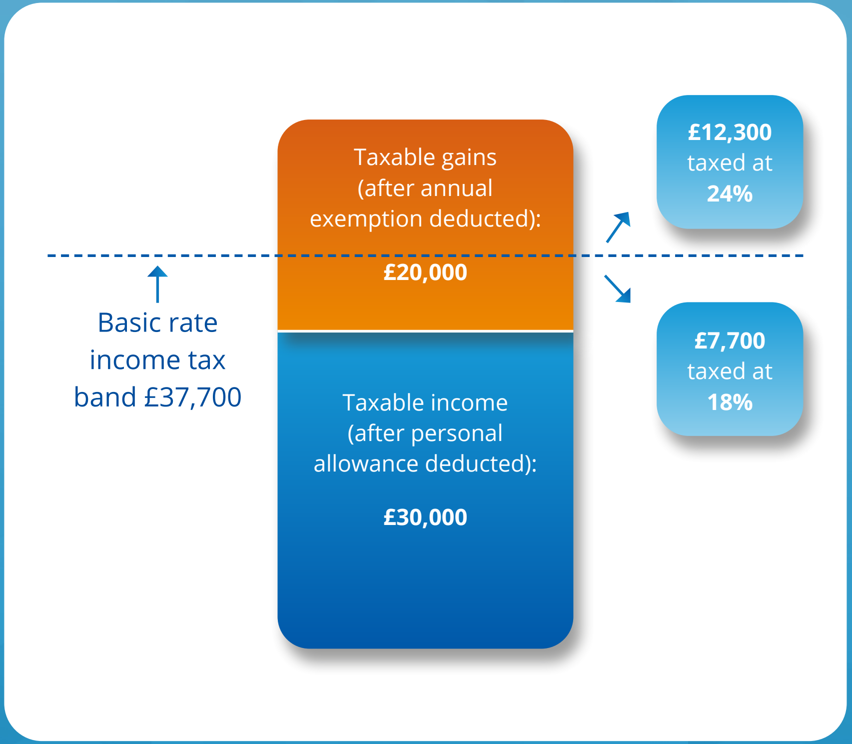
In 2025/26, Robin had taxable income of £30,000 (after deducting their personal allowance and income tax reliefs).

They also made chargeable disposals in the year resulting in gains of £28,000 and losses of £5,000. After adding these together, and deducting the annual exemption of £3,000, their total taxable gain was £20,000.

To calculate the rate of CGT applying, Robin must first calculate how much of the basic rate band is remaining after taking account of their taxable income.

The £30,000 taxable income leaves £7,700 remaining in the basic rate band.

This means that the first £7,700 of gain is taxed at the basic rate of 18% and the remaining gain of £12,300 is taxed at 24%, giving a total capital gains tax payable of £1,386 + £2,952 = £4,338.



STEP 6: REPORT AND PAY

You are responsible for keeping appropriate records and reporting your gains to HMRC. Penalties and fines may apply if you do not make any required submissions or payments in the specified timeframe.

- If you realise a net gain above the annual exempt amount you must report this.
- **If you are already registered for self-assessment:** you can complete the CGT pages of your self-assessment return in the tax year following the year of disposal. The usual deadline applies (31 January following the end of the tax year) for the online submission of the return, and payment of tax due. You can also use the online HMRC real time CGT service to report if you wish, but you must still include the disposal on your self-assessment return as well.
- **If you are currently outside the self-assessment regime:** you do not need to register just to report a gain. Instead, you may be able to use the HMRC real time CGT service to report at any point before the 31 December following the end of the tax year (tax remains due by 31 January). Or you can register for self-assessment if you prefer, but you must notify HMRC of this by 5 October in the tax year following disposal. Once registered, you must complete a self-assessment return every year thereafter, unless you notify HMRC otherwise.
- **If the disposal proceeds are more than £50,000 for 2024/25, and you are registered for self-assessment, you must make a CGT return even if there is no CGT to pay.**

SPECIAL RULES ON DISPOSAL OF PROPERTY

Special rules apply to disposals of property:

If you are UK resident and dispose of UK residential property you must report and pay any tax due within 60 days of sale (completion).

- No reporting is required if there is no tax due.
- Reporting is via the specific HMRC online 'CGT on UK property' service (link below).
- Note that if you don't yet have online access, you'll need to allow time to register for a 'Gateway ID'. Those in the self-assessment regime should also include the disposal as part of their overall self-assessment return as for any other disposal.
- Only if you are not able to use the online service, you may be able to use a paper form (link below).
- If the sale and the end of the 60-day period straddle a tax year end, it may be possible to submit a self-assessment tax return within the 60-day period required. In this case no separate submission would be required, and the tax payable deadline would be deferred until the usual self-assessment deadline of 31 January in the tax year after sale.

If you are non-UK resident and dispose of any type of UK property or land you must report within 60 days, regardless of whether this results in a gain or not.

- Again, this can be done via the HMRC online CGT property service and any tax due must also be paid within the 60-day window.

HMRC Online CGT Service

HMRC CGT Form For Printing

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