

Practice Question: Capital Gains Tax (CGT)

Amika Jackson, aged 78, has been in business as a sole trader since 1 April 1985. On 31 March 2006 she transferred the business to her son Sherman, at which time the following assets were sold to Sherman:

1. A freehold shop with a market value of £260,000. The shop had been purchased on 1 July 2000 for £113,000, and has always been used by Amika for business purposes. Sherman paid Amika £160,000 for the shop.
2. A freehold warehouse with a market value of £225,000. The warehouse had been purchased on 1 April 1985 for £70,000, and has never been used by Amika for business purposes. Sherman paid Amika £100,000 for the warehouse. The indexation allowance from April 1985 to April 1998 is £50,100, and from April 1985 to March 2006 it is £70,400.
3. Where possible, Amika and Sherman have elected to hold over any gains arising.
4. Amika is a 40% taxpayer.
5. She made no other capital disposals in the tax year 2005-06.

Required:

(a) **Calculate Amika's capital gains tax liability for the tax year 2005-06.** (10 marks)

(b) Respond to the following related questions:

(i) Explain why it would have been beneficial for capital gains tax purposes if Amika had postponed the transfer of her business until 6 April 2006. (3 marks)

(ii) Explain the capital gains tax implications if Amika had retained the business until her death, with the assets then passing to Sherman under the terms of Amika's will. (2 marks)

(Total: 15 marks)