

## How to calculate Day Trader Capital Gains Tax 2017/18

This factsheet provides worked examples and explains which Capital Gains Tax (CGT) rates should be applied and when.

The two rates of CGT for 2017/18 applicable to chargeable gains arising from day trading are 10% and 20%. To calculate how much CGT is due, the day trader must first ascertain all income that is to be reported on the tax return in that year. This could be employment income, self-employment income, rental income, income from savings etc.

Before factoring in the total chargeable capital gains calculated for the year, the day trader, having ascertained total income for that tax year, should identify which income tax band he/she falls into.

The income tax bands and rates for 2017/18, together with the personal allowance i.e. the amount that is tax free for the year are shown in the table below:

Tax Band	Taxable Income (£)	Tax Rate (%)
Personal Allowance	£0 - £11,500	0%
Basic rate	£11,501 - £45,000	20%
Higher rate	£45,001 - £150,000	40%
Additional rate	>£150,000	45%

**Note:**

The personal allowance is reduced by £1 for every £2 of taxable income that exceeds £100,000.

### Scottish Taxpayers

The Scottish parliament now has the power to set income tax rates and bands for Scottish taxpayers in respect of their non-savings income. Please see **Appendix I** for these Scottish Income Tax bands.

Once the day trader has applied the income tax bands to all income arising in the year, they will know which tax band they fall into. Total income arising in the year may be within the basic rate income tax band, with a proportion of this tax band yet to be utilised. This is where the day trader's total income is less than £45,000.

Alternatively, the day trader's total income may be in the higher rate tax band, with a proportion of that tax band either left unused or completely extinguished, making them either a higher rate taxpayer or an additional rate taxpayer.

A CGT rate of 10% is levied on the chargeable gains the day trader has which fall within their unused basic rate income tax band. Any chargeable gains arising outside the basic rate income tax band will be liable to 20% CGT.

### Example 1

Mr A is a day trader and is deemed a private investor, liable to CGT on his day trading gains. His chargeable gains\* in 2017/18 amount to £18,000. Mr A also has rental income of £12,000 in the same tax year.

*\*Chargeable gains are the total capital gains liable to CGT after having deducted the annual exemption.*

The calculation of Mr A's income tax liability is as follows:

	£
Rental income	12,000
<b>Less:</b> Personal Allowance	(11,500)
	<hr/>
<b>Taxable income</b>	<u>500</u>

#### **Income tax calculation:**

£500 @ 20% = £100

Mr A's income tax liability for 2017/18 is £100

#### **Capital Gains Tax calculation:**

Mr A's taxable income falls within the basic rate income tax band. Mr A's taxable income of £500 does not use all the basic rate income tax band. Mr A now knows that his capital gains of £18,000 will fall within the unused basic rate income tax band. Mr A's chargeable gains of £18,000 will be liable to CGT at a rate of 10%. Mr A is liable to CGT as follows:

£18,000 @ 10% = £1,800

**Total CGT payable £1,800**

#### **Scottish taxpayers**

Please substitute the Income Tax bands used in the example above with the Income Tax bands that apply to the non-savings income of Scottish taxpayers (as shown in Appendix I).

## Example 2

Mrs B is a day trader deemed to be a private investor and liable to CGT on the gains she makes from day trading. Mrs B's chargeable gains\* in 2017/18 amount to £36,000. Mrs B also has employment income earned during the same tax year which amounted to £40,000.

*\*Chargeable gains are the total capital gains liable to CGT after having deducted the annual exemption.*

The calculation of Mrs B's tax liability is as follows:

	£
Employment income	40,000
<b>Less:</b>	
Personal Allowance	<u>(11,500)</u>
<b>Taxable income</b>	<u><b>28,500</b></u>

### **Income tax calculation:**

£28,500 @ 20% = £5,700

Mrs B's income tax liability for 2017/18 is £5,700

### **Capital Gains Tax calculation:**

Mrs B has not used all of the basic rate income tax band. Some of her chargeable gains of £36,000 will use up the remainder of the basic rate income tax band. However, a greater proportion of her chargeable gains will go outside the basic rate income tax band and be subject to CGT at a rate of 20%. Mrs B will be liable to CGT as follows:

£5,000 @ 10% = £500  
£31,000 @ 20% = £6,200

**Total CGT payable**      **£6,700**

### **Scottish taxpayers**

Please substitute the Income Tax bands used in the example above with the Income Tax bands that apply to the non-savings income of Scottish taxpayers (as shown in Appendix I).

Whether you are liable to CGT as a day trader will depend upon whether HMRC consider your day trading activities to be that of a private investor. In order to determine how HMRC view your day trading activities it is necessary to review the way in which you day trade against HMRC guidance and case law.

Should you require any assistance in establishing your tax status with HMRC, Decipher Tax advisers are here to help. Please don't hesitate to contact us on **0203 6376416** for an informal chat or book an initial, no obligation, telephone consultation. Your initial 1 hour telephone consultation is free of charge.

## Appendix I

### Scottish Taxpayers

The Scottish parliament now has the power to set income tax rates and bands for Scottish taxpayers in respect of their non-savings income, these are as follows:

<b>Scottish Income tax rates and bands (non-savings income) 2017/18</b>		
<b>Band</b>	<b>Taxable income (£)</b>	<b>Income Tax rate (%)</b>
Basic rate	£11,5001 to £43,000	20%
Higher rate	£43,001 to £150,000	40%
Additional rate	Over £150,000	45%