These notes refer to the Finance Act 2012 (c.14) which received Royal Assent on 17 July 2012

FINANCE ACT 2012

EXPLANATORY NOTES

INTRODUCTION

Section 34: Annual Exempt Amount

Summary

1. Section 34 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 Section

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 section 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.