

Adviser Edge

Reporting and using capital losses for Capital Gains Tax (CGT)

CATEGORY: INVESTMENT AND TAX

Key Takeaways

- Losses are “allowable” only when they have been notified to HMRC within four years from the end of the tax year in which they arise
- Current year losses must be set against current year’s gains before the Annual Exempt Amount (AEA) is applied
- Losses brought forward are used after the AEA is applied

Allowable losses and how to claim

Capital losses are calculated in the same way as capital gains, by deducting the disposal proceeds from the acquisition cost.

A loss is “allowable” only if the HMRC has been notified with a quantified amount, within four years (claim time limit) from the end of the tax year in which the loss occurred. Once HMRC has been notified, the loss can be carried forward indefinitely.

Individuals can notify the HMRC by including the loss on the SA108 form (and computation) on the tax return for the year of disposal. Alternatively, they can make a written claim if they do not complete a self-assessment return.

Applying a capital loss

Capital losses are brought into the CGT computation in a fixed statutory order. By following the sequence taxpayers ensure losses are used efficiently and in accordance with HMRC rules.

- First, any allowable losses arising in the same tax year must be set against gains from that year before the AEA is applied, even if this results in the AEA being partially or fully wasted. If losses remain after eliminating all current year gains, the losses can be carried forward indefinitely.

Same year loss first

Alex realises a £10,000 gain and a £7,000 loss in 2025/26. The £7,000 loss must be set against the £10,000 gain first, leaving £3,000. The AEA (£3,000) then reduces the chargeable gains to £0. No loss is carried forward.

- Secondly, any brought forward losses are then set against gains, after the AEA has been applied. They cannot reduce net chargeable gains below the AEA. This ensures the exemption is not wasted on losses from previous years. Any remaining brought forward losses, after applying the AEA, can be carried forward indefinitely.

Brought-forward loss used after AEA

Megan has £5,500 gains in 2025/26 and £8,000 previously registered losses brought forward. The AEA (£3,000) reduces gains to £2,500; she then uses £2,500 of brought forward losses, leaving £5,500 to carry forward.

Negligible value claims (shares and other assets)

If the individual owns an asset, however it becomes of negligible value (effectively “worth next to nothing”), they may claim a capital loss without selling it. They are treated as disposing of and immediately reacquiring the asset at the negligible value on the effective date of the claim (which, in some cases, can be backdated). Evidence that the asset had become negligible while they owned it is required.

Disposals to connected persons – ‘clogged’ losses

Where an individual disposes of an asset to a connected person (for example, certain family members or a company they control), market value rules apply and any loss is “clogged”. A clogged loss can only be set against gains on later disposals to the same connected person while they remain connected.

Connected person - clogged loss

James gifts shares to a sister at a loss. The loss is “clogged” and can only be set against a future gain on a disposal to the sister while they remain connected; it cannot be set against gains on sales to third parties.

Chattels and wasting assets - loss restrictions

Losses on exempt assets (for example, private motor cars and most wasting chattels) are not allowable. For non-wasting chattels, special calculation for disposal proceeds between £6,000/£15,000.

Summary

Capital losses must be claimed within the time limit and computations should be kept. Current year losses are set against current year gains first, with the AEA applied afterwards. Brought forward losses are then used without reducing gains below the AEA.

Negligible value claims can be relevant where an asset has become effectively worthless. Disposals to connected persons can create ‘clogged’ losses that are restricted to gains on later disposals to that same person. Specialist rules can apply to foreign losses, chattels and wasting assets, so check HMRC guidance and seek advice where needed.

CG15800 - Losses: allowable losses - HMRC internal manual - GOV.UK

<https://www.gov.uk/hmrc-internal-manuals/capital-gains-manual/cg15800>

Information correct as at February 2026. Advisers should confirm current rules on GOV.UK before relying on this guidance.

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