

PRIVATE CLIENT DEPARTMENT

PRE-BUDGET REPORT CGT SIMPLIFICATION

The Main Changes...

- The Pre-Budget Report unveiled the Government's proposals for simplifying the Capital Gains Tax regime as from the 6th April 2008. The main consequence of this simplification will be the withdrawal of taper relief and indexation allowance and the lowering of the rate of CGT from the current top rate of 40% to a standard rate of 18%
- Disposals made before 6th April 2008 shall be taxed under the current rules.

How Does It Affect You?

- To put it simply, some will be winners and others will be losers. In general those in the following circumstances should review their position to see whether disposals or restructuring should take place prior to April 2008 in order to avoid a potentially increased liability under the new rules.
 - If you are entitled to full Business Asset Taper Relief (including shares in a private family company, AIM listed shares, those involved in Enterprise Management Incentive Schemes) which currently reduces your CGT liability to an effective rate of 10%.
 - If Indexation Allowance is significant because you have a high historic base cost (i.e. agricultural land in March 1982 was generally of quite high value hence the importance of indexation up to 1998).
 - If you have deferred a gain into a qualifying corporate bond under which the gain is deferred until disposal. Under the new rules it seems likely that on a disposal post 6 April 2008 the original gain will be taxed without the benefit of taper relief.
- However, it is not all bad news in that many will benefit from the proposed changes, for example, if you hold non-business assets (particular those only held since 1998), including second homes. Here, even if you have reached maximum Non-Business Asset Taper Relief your tax rate is likely to drop from an effective rate of 24% to 18%.

Do You Need To Do Anything?

- If you hold assets benefiting from full Business Asset Taper Relief and you are considering disposing of them in any event then you may wish to dispose pre April 2008.
- Alternatively you could trigger a CGT liability but retain control by creating a suitable trust structure or even trigger the CGT by making an outright gift in order to wipe out the historic gain (payment of CGT by installments over 10 years is available on certain disposals by way of gift).
- Chattels that may be feasibly be given away during lifetime should be reviewed especially those with a high March 1982 base cost.

Summary

- It should be noted that the above is not law yet and is unlikely to be so until Parliament passes the Finance Act 2008 probably around July next year. However, individuals and trustees should be reviewing their investments and calculating whether disposals pre-April 2008 are (a) feasible and (b) make good financial sense or whether upcoming disposals should be postponed until after the Finance Act 2008.

How can Russell-Cooke Solicitors help?

- If you would like to discuss capital gains tax issues then we are happy to advise you, in consultation or in writing, on the options available to you.