



Proposed Changes to Capital Gains Tax

What is Capital Gains Tax (CGT)?

CGT is a tax on capital gains made by a person or trust on disposal of assets, if the asset has increased in value.

Proposed Changes

In his first pre-Budget speech as Chancellor, Alistair Darling announced major changes to the Capital Gains Tax (CGT) system to take effect from 6 April 2008. The proposed changes are as follows:

- Introduce flat rate of tax of 18%
- The withdrawal of taper relief (introduced 1998)
- Withdrawal of indexation allowance (assets held 1982 to 1998)

Other CGT reliefs such as the annual exemption, losses relief, gift-hold over, roll over relief and Enterprise Investment Scheme relief will continue to be available.

The reform is likely to create significant numbers of winners and losers.

Winners and Losers

Business assets

In most circumstances, taxpayers who dispose of business assets will lose out because the effective rate of CGT for a higher rate taxpayer will increase from 10% to 18%.

Where business assets were held before 6 April 1998, the actual tax increase will be proportionately more due to the loss of indexation allowance. Particularly badly hit by the changes will be those who hold businesses assets for the long term, for example farming businesses and furnished holiday lettings.

For those businesses that are not Limited Companies but are considering incorporation, to delay post 5 April 2008 could be an expensive mistake.

Non-business assets

Generally, the main winners will be higher rate taxpayers disposing of non-business assets. However, it will need to be considered on a case by case basis. The position is more complicated to consider where a portfolio of assets has been acquired at different times.

Basic rate taxpayers that have held assets for five or more years will generally lose out.

The above comments are simplified and detailed calculations will be required for each situation.

What should I do now?

If you are considering the sale of an asset or your business, it will be necessary to carry out a detailed review comparing the CGT position before and after 6 April 2008. For further advice, please contact your usual Streets Partner or email info@streetsweb.co.uk

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