

## Capital Gains Tax

The Government have recently announced major changes to capital gains tax (CGT).

### What are the changes?

From 6 April 2008 for individuals:

- There will be one single rate of CGT at 18%
- Taper relief is abolished
- Indexation allowance is abolished
- A new “entrepreneurs’ relief” is introduced
- A few other minor reliefs are being abolished

### What are taper relief and indexation allowance?

Taper relief operates to reduce the amount of any gain on which tax is charged. There are different rates for business assets and for non-business assets. The amount of taper relief increases for each year that the individual has held the asset/property. Currently, if full business asset taper relief is available on a disposal, the gain will only be taxed at the rate of 10%.

Indexation allowance effectively accounts for the effects of inflation between 1982 and 1998 by increasing the acquisition cost which is deducted from market value in calculating the gain on which a person is taxed. Indexation allowance is most valuable where the asset/property was acquired before 1982 and decreases to the minimum where an asset/property was acquired in 1998.

### How will the new “entrepreneurs’ relief” operate?

This relief will allow the first £1 million of gains to be taxed at the reduced rate of 10% where the disposal is of business assets on the disposal of all or part of the business.

Entrepreneurs’ relief will only be available for trading businesses and will not be available for investment businesses such as buy-to-let portfolios or shares in an investment company.

### What does this mean for me?

These changes may affect you when you dispose of business assets or property interests.

These changes do not affect companies (except companies who are trustees). In addition, principal private residence relief will still be available, so these changes will not affect you if you dispose of a property which has always been your only or main home.

However, despite the reduced headline rate of tax, many people will be worse off as a result of the loss of taper relief and indexation allowance.

**For example:**

1. *John is a higher rate taxpayer and he owns a buy-to-let property which he bought for £25,000 in April 1982. The property is now worth £185,000.*

*If John sold the property before 5 April 2008, he would be entitled to £25,150 indexation allowance and £53,940 non-business taper relief and would pay **£28,684 CGT**.*

*Under the new rules, when John sells his property after April 2008, he will not receive any indexation allowance or taper relief and would pay **£27,144 CGT**.*

*If John captures the indexation available before 5 April 2008, he can reduce his post-April 2008 CGT bill to just **£22,617**.*

2. *Rachel is a higher rate taxpayer and owns all the shares in a trading company, TradeCo. Rachel bought the shares for £200,000 in March 1998. TradeCo is now worth £5,000,000.*

*If Rachel sells her shares before 5 April 2008, she would receive £2,200 indexation allowance and £3,598,350 business taper relief and would pay **£476,100 CGT**.*

*Under the new rules, when Rachel sells her shares after April 2008, she will not enjoy any indexation allowance or taper relief. The new entrepreneurs' relief will be available, but will be limited to the maximum £444,444 relief because Rachel's gains are over £1 million. She would pay **£782,344 CGT**.*

[How can the Tax and Trusts team help?](#)

The Tax and Trusts team have considerable experience in formulating and implementing bespoke tax planning for high net worth individuals.

There are a number of ways in which the valuable indexation allowance and taper relief which has already accrued on your assets can be captured, provided that action is taken **before 5 April 2008**.

We would be pleased to discuss your situation if you think you may lose out as a result of these changes, calculate the capital gains tax savings which could be made and, if appropriate, devise an individual solution to meet your needs.

Please contact Barry Glazier on 01202 786186 in the first instance.