

Capital Gains Tax changes again 2008

When the Chancellor, Mr Darling, in his pre-Budget speech, said that he was going to reform Capital Gains Tax (or "CGT") again, there was outcry from the business community which had been trained by the previous Chancellor, Gordon Brown, to expect what was in effect a 10% tax rate to apply to business sales. But, no, the rate was nearly going to double, to 18%, from 6 April 2008.

Perhaps what people forget was that, until Mr Brown messed around with CGT in 1998, for most people with large disposals the CGT rate was a lot more. While there was an exemption for some gains ("retirement relief"), this only applied to a limited amount of gains in limited circumstances, and gains were taxed at rates up to 40%, and people would have been happy to get their CGT rate down to 18%. But memories are short.

The optimists hoped that the outcry would persuade the Chancellor to back down, or at least delay the changes he proposed. But Chancellors never back down, as that means admitting they were wrong.

What he has proposed however, and we don't have the full details of this, is something that is being called Entrepreneurs' Relief. It will enable individuals to shelter the first £1m of gains on the sale of a business from the full impact of 18% CGT. Instead this first £1m (which doesn't have to be in one go) will suffer tax at 10%.

Some of the optimists saw this as a climb-down. But it's less generous than some of them think:

It only applies to the sale of a business. That includes a sale of some shares in a private trading company. But the sale of assets on their own won't count. It has to be part of a business disposal.

Business taper relief currently applies to investors in other people's businesses and even to landlords who let to certain unconnected trading businesses. This new relief won't apply in these circumstances. They'll have the full 18% tax rate.

When the pre-Budget report came out, we suggested business owners might want to find ways to crystallise the gains they had already accrued to make sure that they got the benefit of indexation and the lower CGT rate. While it seems a lifeline has been thrown to business owners, there are others who would also have got the special business CGT rates and who will not get the benefit of this new relief. Time is running out this tax year, but they should look at ways to "bank" the tax reliefs they currently have, even if it means paying some tax now, to save paying more later.

If you think you might be affected by this, contact Gerry Jackson on 01865 261100 or email gjackson@critchleys.co.uk