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Pre-Budget Report 2008

Capital Gains Tax

Companies are not affected by the changes outlined below. They will apply to individuals, trustees and personal representatives chargeable to Capital Gains Tax.

The Pre-Budget Report is quoted below:

The Government will take steps to introduce "a major reform of capital gains tax, introducing a single rate of 18 per cent from April 2008, ensuring a more sustainable system that is straightforward for taxpayers, and internationally competitive;"

What this statement does not reveal is set out in more detail below:

Reliefs to be withdrawn:

- Taper Relief is to be withdrawn.
- Indexation Relief is to be withdrawn.
- The so-called "kink test" for assets held at 31 March 1982 is to be abolished. What this means in plain English is that all assets held at 31 March 1982 will be deemed to have a base cost at 31 March 1982 valuation - whether or not the actual cost was higher or lower.
- The Revenue are also abolishing halving relief and simplifying the share identification rules.

Reliefs that will still be available post 6 April 2008 include:

- Principal private residence exemption.
- Business asset roll-over relief.
- Enterprise Investment Schemes and Venture Capital Trusts will no longer qualify for taper relief, all other CGT advantages are retained.
- Business asset gift hold-over relief.
- Unused CGT losses brought forward from previous years.
- The Annual Exempt amount will still apply, presently £9,200 for individuals.

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It has to be said that the ramifications of these changes to CGT planning are far reaching. The legislation enacting these reforms will not be available until the March Budget 2008 is published. However HMRC will be publishing more detail of any consequential changes later in the year.

The calculation of capital gains tax due will no longer be linked to your income tax calculation. At present you pay CGT at your marginal rate for income tax purposes, as if the gain was added to your other taxable income. From 6 April 2008 gains will be taxed at a flat rate of 18%. This rate will not affect your income tax rates.

We will be studying this information as and when made public and will advise clients of the likely planning implications - watch this space!