

news bulletin

capital gains tax increases

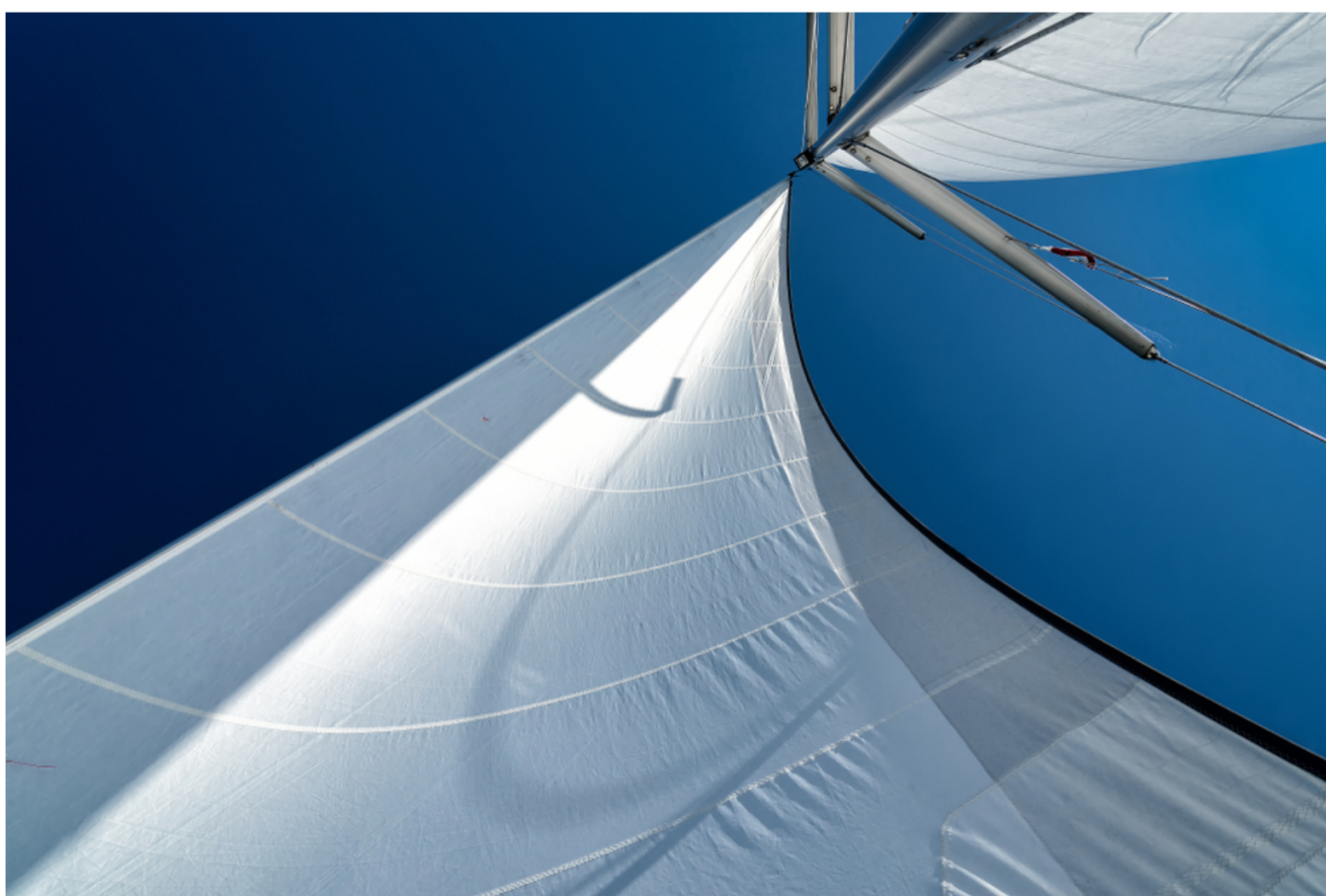
in brief

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why rate increases are expected

There has been recent speculation that rates of capital gains tax (CGT) could be set to increase as the Government seek to recoup some of the mounting costs of supporting the UK economy through the Covid-19 pandemic.

Chancellor Rishi Sunak had already asked the Office of Tax Simplification (OTS) to undertake a review of CGT. In particular, the Chancellor said he would be interested in any proposals from the OTS on how gains are taxed compared to various types of income.

Historically, rates of CGT have tended to be lower than rates of income tax to reflect the risk of investment capital. Even taking account of that, current rates of CGT are very low and there is precedent for them being set closer to rates of income tax or even directly linked to rates of income tax.

current rates / future rates

Currently, CGT is charged at up to 20% for most assets. Residential property is subject to CGT at up to 28%, other than for the main home to which a relief applies. These rates contrast with those charged on income of up to 45% for additional rate taxpayers.

The Chancellor's request for a review has caused concern that he may be considering aligning the CGT and income tax rates. For additional rate taxpayers this would result in the tax rate increasing by 125% (from 20% to 45%), on gains made on the disposal of assets such as commercial property or shares.



when rates would rise

The OTS has launched a consultation to seek views on CGT from individuals, businesses, professional advisers and representative bodies. Meridian will be submitting a response to this consultation.

It is possible rates could rise as early as the Autumn Budget, which usually takes place in late October/early November. As the closing date for the OTS consultation is not until 9 November, any changes announced before that date would not be based on the findings of the OTS CGT review.

If increases are announced, the increase could be effective immediately or from any future date, most likely 6 April 2021. We consider it is highly unlikely any rate increase would have retrospective effect.

planning points

Given the uncertainty over whether/when rates will increase, anyone already contemplating an asset disposal in the current tax year should consider bringing the disposal forward to predate the Autumn Budget.

There may be other opportunities to plan, depending on your circumstances. There are a number of ideas which could be considered, such as disposals into trust before the Autumn Budget. Longer term, if rates do significantly increase, more dramatic planning - such as emigration - may again become attractive.

If you are contemplating an asset disposal in the near future, or wish to review planning opportunities, please get in touch with your usual contact at Meridian.

The content of this bulletin is not a detailed statement of all the law on the matters referred to. Specialist advice should be taken from ourselves in all cases.

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