

The spectre of tax changes

Is now the time to sell your business?

Agenda

- Backdrop – COVID-19, tax and the M&A market
- A brief history of Capital Gains Tax (CGT)
- What might give and when?
- What could you do to take out the risk of any changes?

A brief history of Capital Gains Tax (CGT)

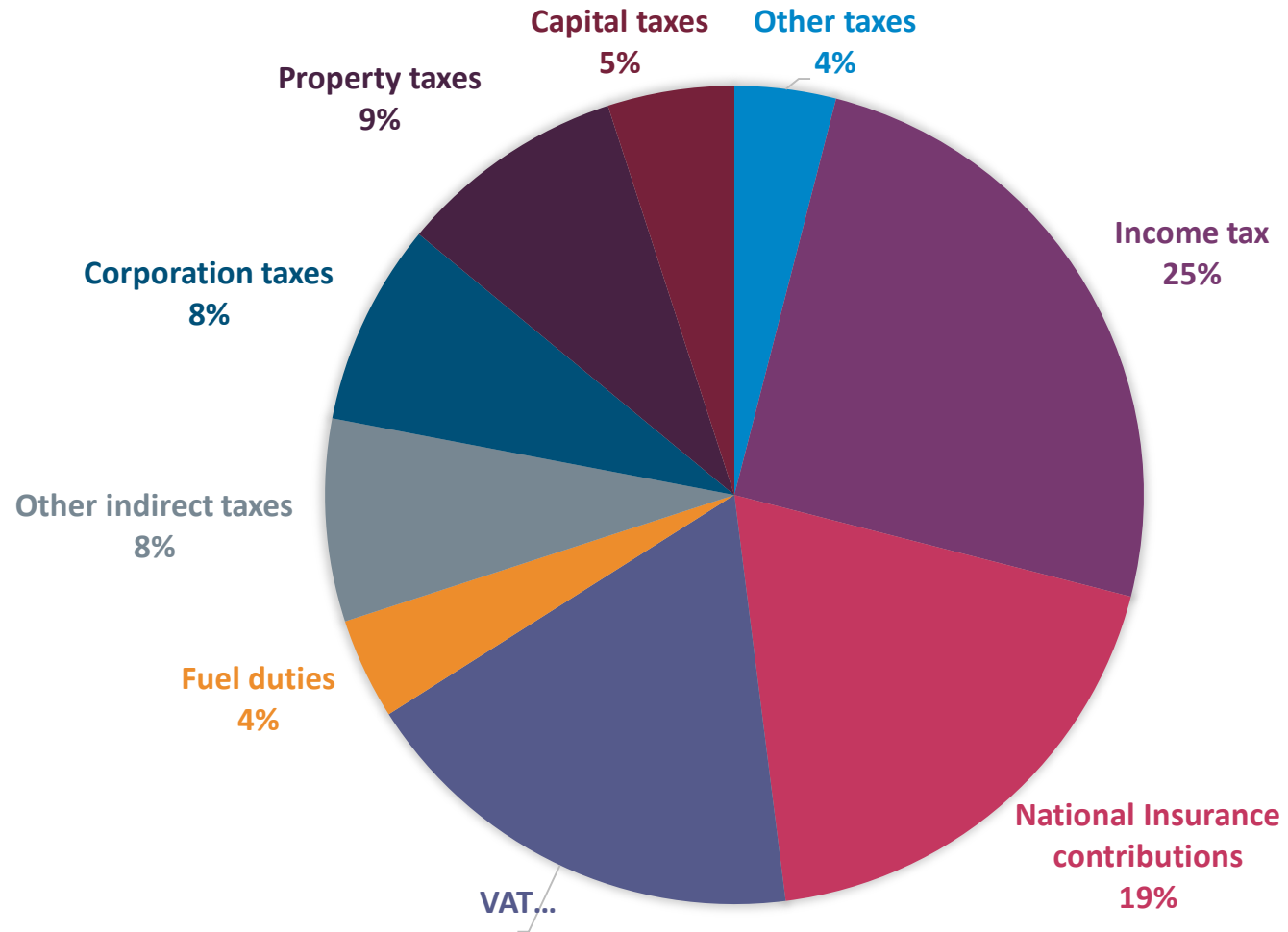
History of CGT for business owners

- Introduced by FA 1965 (as was corporation tax)
 - Short term gains had been taxed as income since 1962
 - Flat rate of 30% (NB income tax rates hit 90% during the 1950s and 1960s and was 83% in 1979)
 - Retirement relief - sliding scale from 60, reaching £10,000 tax free at 65
- Indexation allowance introduced in 1982
- 1988 - rebasing of assets held at 31 March 1982
- 1993 – IA can't create a loss
- 1998 – taper relief and the removal of IA
 - Retirement relief was 100% for £250,000 and 50% from £250,000 to £1,000,000 (so tax of 15% on £1m)
 - Business asset taper relief 'replaced' retirement relief (the 10% rate), with a five year 'wind down'
- 1999 – rates 'aligned' with savings income to 20% and 40%
- 2000 – Business asset taper relief reduced from 10 years to 4 years, reduced to 2 years in 2002
- 2008 – flat rate introduced, taper relief abolished and Entrepreneurs' Relief introduced '
 - £1m lifetime limit and effective 10% rate
 - Lifetime limit increased to £10m in 2011 and reduced back to £1m in 2020 (and relief renamed Business Asset Disposal Relief)
- 2012 – CGT extended to temporary non-residents
- 2014 – no gain/no loss (tax free) transfer of shares to an EOT
- 2015 – non-resident CGT for UK residential property
- 2019 – non-resident CGT for all UK land

Tax rates

	Highest rate of income tax	Highest rate of CGT	Reduced rates for business assets	
1973/74 to 1978/79	38% to 83%	30%	0%	Retirement Relief
1979/80 to 1987/88	40% to 60%	30%	0%	Retirement Relief
1988/89 to 1997/98	40%	40%	0%	Retirement Relief
1998/99 to 2007/08	40%	40%	10%	Business Asset Taper relief
2008/09 to 2009/10	40%	18%	10%	Entrepreneurs' Relief
2010/11 to 2012/13	50%	28%	10%	Entrepreneurs' Relief
2013/14 to 2015/16	45%	20%/28%	10%	Entrepreneurs' Relief
2016/17 onwards	45%	20%/28%	10%	Entrepreneurs' Relief/BADR

Composition of tax receipts, 2017 - 18



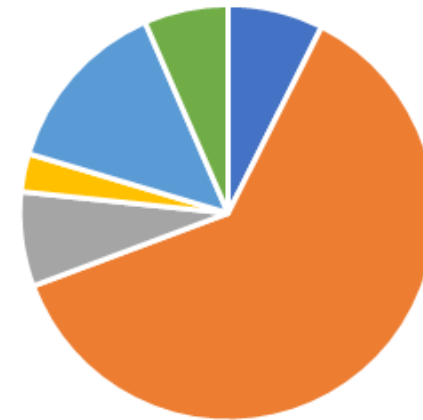
Review of CGT

- Announced in July 2020
 - In relation to individuals and small businesses
 - Include proposals relating to allowances, exemptions, reliefs, and the treatment of losses
 - Also the interaction of the taxation of gains and other types of income and how CGT rules may distort behaviour and not meet their policy intent
- 'Recent' history of tinkering
- Sacred cows? Reliefs that have existed since 1965:
 - PPR
 - Retirement relief
 - Replacement of business assets
 - Chattels, works of art
- How brave will the government be?
 - CGT 'reform' (read rate increases) is politically popular
 - Apparently more so with Tory voters than the public at large
 - Less than 300,000 taxpayers pay CGT
 - Less than 20,000 taxpayers make gains of more than £500,000 (around 30,000 make gains > £250,000)
- CGT was introduced as a reaction to significant post-war property values
 - Politics or economics?

Review of CGT

- How brave will the government be – will ER be left alone?
 - Between 40,000 and 50,000 taxpayers benefit from ER
 - Less than 20% of all individual CGT payers
 - Only 6,000 taxpayers benefiting from ER make gains > £1m
 - £2.7bn taxed at ER rates (out of £63bn total gains)
- But, 62% (£36.5bn) of gains made on unquoted shares

Value of chargeable gains by asset type 2017/18



- London listed shares
- Unlisted shares
- Other financial assets
- Commercial property
- Residential property
- Other non-financial assets

Inheritance Tax

- Shouldn't look at CGT in isolation
- IHT is our other capital tax
 - 40% IHT, but 100% relief for business property (but not PPR and other non-CGT assets)
- Based on value
 - Potentially exempt transfers – gifts > 7 years exempt
 - No CGT on death, but base cost uplift
- IHT is very unpopular, unlike CGT
 - 24,200 estates taxed in 2017/18 (5% of deaths), raising £4.8bn (16,000 estates paid £2.7bn in 2011/12)
 - 287,000 taxpayers paid CGT, raising £9bn
- APPG report on Reform of IHT (January 2020)
 - IHT criticised as “complex, ineffective, riddled with anomalies, distortionary and unfair” and is “ripe for reform”
 - APPG suggests a flat-rate 10% gift tax, without reliefs (other than spouse and charity)
 - Abolish the CGT uplift
 - Retain a death allowance and give a £30,000 annual lifetime gift allowance
- Gifts are also subject to CGT
 - Why have CGT on lifetime gifts and IHT on gifts when you die?
 - Why introduce a second tax on the same transaction?
- How brave will the government be? A wholesale reform of capital taxes?

What might give and when?

Pre-Budget kite flying

- Recent leaks/briefings about possible tax changes for the next Budget
 - Increase in the basic rate of income tax?
 - Changes to NICs?
 - Increases in corporation tax (NB – promised reduction to 17% was cancelled)?
- **But, manifesto commitment on income tax, NICs and VAT**
 - Changes in (read cuts to) reliefs
 - Pensions tax relief?
 - VAT zero rating?
 - Principal Private Residence for CGT
 - Flat rate of tax?
 - Fuel duties?
- No “horror show of tax rises with no end in sight.”
- Economists’ consensus is that tax rises are not necessary or appropriate now
 - Low interest rates and QE
 - Immediate tax changes would be political, although medium term increases are likely

What could you do to take out the risk of any changes?

Get in touch



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