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Are changes to Capital Gains Tax on the horizon?

COVID-19 restrictions have hit the treasury pockets hard, as spending to keep the economy and businesses going during multiple lockdowns continues. Chancellor Rishi Sunak has made it clear that tax rises are required to "balance the country's books" and Capital Gains Tax (CGT) is reportedly at the forefront of his mind having launched a review. CGT benefits from lower rates of tax in comparison to income tax, coupled with generous reliefs and exemptions to reduce this rate even further.

What are the potential changes? And how can you mitigate your potential exposure?

Background

CGT is a tax on gain made on the sale of a chargeable capital asset (property, shares etc.). The current rates of CGT are as follows:

- 28% on residential property
- 20% on other assets (and in some cases 10%)

In comparison Income tax rates are as follows:

- Basic rate (£12,501 to £50,000) 20%
- Higher rate (50,001 to £150,000) 40%
- Additional rate (over 150,000) 45%

It has been claimed that CGT rates will be brought into line with Income tax resulting in a potential 25% (even 35% in some cases) tax increase for additional rate taxpayers on certain disposals.

Planning options to consider

Accelerate Disposals

If you are planning on disposing of any capital assets it may be prudent to bring forward any potential disposals. The Autumn Budget which was due in October/November was cancelled and any proposed changes have been delayed to next budget, yet to be pencilled in. Any potential disposal could, therefore, be actioned in advance of the next budget, to take advantage of the current rates.

In addition, there are a number of options to create a disposal of shares now to lock in the tax favourable CGT rates.

Business Asset Disposal Relief (BADR) formerly known as Entrepreneurs' Relief

If assets being disposed qualify for BADR, gains will be taxed at a reduced tax rate of 10%. Previously the 10% rate was on the first £10million of qualifying gains but this has now been reduced to the first £1 million. This relief is being reviewed by the Government and there have been calls to remove it altogether. If you looking to sell assets that are BADR qualifying, now could be a good time to take advantage of both low CGT rates and BADR and consider a sale.

Member's Voluntary Liquidation (MVL)

If assets such as property are held in a company, these could be passed to the individual shareholders under a MVL. Under the MVL the disposal to the shareholders could potentially qualify for capital treatment and be taxed at the lower CGT rates.

Disposal of residential property

If you are planning on selling residential property, new notification requirements have been introduced by HMRC. From 6 April 2020, if you sell a residential property, you have 30 days to notify HMRC of this disposal and pay across any tax due. If you are planning on disposing of residential property Beavis Morgan can assist.

How can Beavis Morgan help?

We can review the position in more detail and provide bespoke advice for your individual needs. As a company, we have a track record of assisting SME's providing bespoke and efficient tax advice.

For a no obligation discussion, please contact Fiona Cross, Tax Partner, Beavis Morgan

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