REFOCUSING CAPITAL GAINS TAX

One of the themes of today's Budget has been to differentiate between gains realised on different categories of assets and the Chancellor continued a long standing tradition of tinkering with the taxation of Capital Gains. Gains made as a result of investing in entrepreneurial business will benefit from reduced rates of tax as compared to gains made from pure investment assets.

The headline grabbing measure was a reduction in the rates of Capital Gains Tax ("CGT"), with the higher rate reducing from 28% to 20% and the basic rate falling from 18% to 10% in relation to disposals made on or after 6 April 2016. Types of property that do not qualify for the reduced rates include residential property (where that does not qualify for Principle Private Residence Relief).

This is another step aimed at discouraging residential property investors, perhaps in the hope of assisting first time buyers to get on to the property market. The 3% increase in Stamp Duty Land Tax on second homes and buy to let properties, announced in the Autumn Statement, coming into effect from 1 April 2016, is now also being extended to larger scale investors who were originally excluded from the increased charge.

The desired outcome of these measures, as well as the previously announced restrictions on interest relief for buy to let investors, is to reduce the incentive for investing in UK residential property rather than in companies, creating wealth and jobs. There is a concern, however, that the additional cost of changes will simply be passed on to private tenants, further penalising them compared to those already on the housing ladder.

The government is also introducing measures to focus and cap reliefs as a result of reducing CGT rates. The Employee Shareholder Scheme ("ESS"), sometimes known as "shares for rights", gave an opportunity for participants to enjoy an unlimited exemption from Capital Gains Tax, The government have now introduced a lifetime ceiling of £100,000 on gains treated as being exempt under the ESS rules, made after 16 March 2016.

SOME GOOD NEWS FOR OFFSHORE TRUSTS…

The reduction in the CGT rates has a positive impact for those with stockpiled gains in offshore trusts, as the tax rate reduces on those gains.

SIMPLIFICATION?…

We calculate that there will be five different rates of CGT applying after April 2016 and many new rules on different asset types. Somehow, this does not feel like a simplification.