

## **CAPITAL GAINS TAX - A NEW REGIME**

9 October 2007

The Chancellor's recent pre-budget report introduced sweeping reforms to the Capital Gains Tax system by abolishing the taper relief system in favour of a flat rate of 18%.

The changes will come into force on 6 April 2008 and will affect private businesses, individuals, trustees and personal representatives. The aim is both to simplify the computation of CGT and restrict the growth of the private equity industry.

Those particularly affected include:

### **Shareholders**

Tax on share profits will be reduced from a maximum of 40% to 18%. However, shares listed on the AIM and PLUS markets will see an increase from 10% to 18%.

### **Small to medium-sized companies**

Disposals made on or after 6 April 2008 will attract a new rate of 18% - an 80% increase from the previous regime.

### **Buy-to-let investors**

The effective rate of CGT on sale profits will drop from between 24% - 40% to just 18% on under the new rules.

### **Private equity investments**

Private equity investment will be liable for an additional 8% on disposals after 6 April 2008. Following the impact of the 'credit crunch', this could mark a major downturn in private equity investment.

### **Venture capitalists and investors**

Investors will not be eligible for relief on unquoted shares after 6 April 2008.

### **Other Key Features of the Pre-Budget Report**

There are other key features of the report as follows: -

- **Doubling the inheritance tax allowance of £600,600.00 immediately for all married couples and civil partners rising to £700,000.00 by 2010 – 2011;**  
Unused individual tax free inheritance allowances can be transferred to a surviving spouse or civil partner.
- **New annual charge to taxation of UK residents who are non-domiciled; and**  
Introduction of an annual charge of £30,000.00 if individuals have been resident in the UK for more than seven years of the last ten. The test for UK residents day counting rules has also been tightened.
- **Seeking to increase the affordability of longer-term fixed rate mortgages.**

A measure to assist first time buyers to give them greater certainty of their mortgage payments.

If you are affected by any of the above changes then we recommend contacting one of our specialist advisors to discuss your options.

**This publication is not a substitute for details advice on specific transactions and problems and should not be taken as providing legal advice on any of the topics mentioned above or issues arising out of those topics. For further information please use the feedback facility on our website.**

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