

Capital Taxes

Capital gains tax (CGT)

The Chancellor confirmed the new standard rate of 18%, coupled with the withdrawal of indexation allowance and taper relief for individuals and trustees with effect from 6 April 2008. Other reliefs, such as those relating to principal private residences, losses brought forward, Enterprise Investment Scheme and Venture Capital Trusts, and business asset rollover relief, will continue to be available. Assets acquired before 31 March 1982 will be deemed to have had a cost equivalent to their market value at that date.

In certain circumstances the CGT base cost of an asset is tied to its value ascertained for inheritance tax (IHT) purposes. A correction made necessary by the IHT changes noted below means this rule will not apply where the value does not have to be ascertained for IHT purposes on the death of an individual.

The Annual Exempt Amount (AEA) will be increased for 2008/09 to £9,600 for individuals and £4,800 for some trustees.

CGT: Entrepreneurs' Relief

Following strong opposition from the business community to the proposed CGT changes, the Chancellor has introduced an Entrepreneurs' Relief which gives an effective 10% rate for the first £1million of lifetime capital gains on the disposal of trading businesses and on certain disposals of shares in trading companies. The relief actually works by reducing the gain by 4/9, leaving the residual 5/9 gain to be taxed at 18% ($5/9 \times 18\% = 10\%$). The effective rate will be reduced by the application of the AEA.

The £1million may be made up of any number of disposals after 5 April 2008 and, unlike the former retirement relief (on which the rules are based), there is no minimum age qualification. There is, however, a one year qualifying period and other conditions to be met. Trustees will also be able to claim, jointly with a 'qualifying beneficiary'.

Capital gains made by companies are dealt with separately under the corporation tax regime, and these arrangements have not changed.

Inheritance tax (IHT)

As previously announced, the IHT standard threshold has been set at £312,000 for 2008/09. This defines the upper limit of what is commonly known as the IHT nil-rate band.

In the October Pre-Budget Report, the Chancellor announced a new concession for married couples and civil partners. With effect from second deaths on or after 9 October 2007 the unused percentage of the nil-rate band from the first death estate can be carried forward and added to the nil-rate band available to the second. The combined threshold for couples is therefore set at a maximum of £624,000 for 2008/09.

This new arrangement applies no matter how long ago the first death occurred. For example:

On the first death none of the original nil-rate band was used because the entire estate was left to a surviving spouse. Then if the nil-rate band when the surviving spouse dies is £350,000 that would be increased by 100% to £700,000

If on the first death the chargeable estate was £107,500 when the nil-rate band was £215,000 (1997/98), then 50% of the original nil-rate band would be unused. If the nil-rate band when the surviving spouse dies is £350,000, then that would be increased by 50% to £525,000.

Pension savings

The Finance Bill 2008 will propose legislation to ensure that tax-relieved pension savings diverted into inheritance using scheme pensions and lifetime annuities are subject to unauthorised payment tax charges and, where appropriate, IHT. In addition, IHT protection to savings in overseas pension schemes will be restored.

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