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18% Capital Gains Tax – Sell now or later?

Mr. Darling announced simplifications to the capital gains tax rules in his Pre Budget Report. Draft legislation is due to be published before the end of the year with final legislation to be included in the Finance Bill 2008. The new rules are to apply from 6 April 2008 and, as yet, there does not seem to be any transitional provisions.

Some of the key changes are as follows:

- Applies to disposals on or after 6 April 2008.
- Applies only to individuals, trustees and personal representatives.
- Disposal by companies of their assets are not affected in any way.
- The rate of capital gains tax will be 18% for all disposals (there is no differentiation between disposals of business assets and non-business assets).
- Taper relief no longer applies on disposals on or after 6 April 2008.
- Taper relief no longer applies to held over gains coming into charge on or after 6 April 2008.
- The rate will not vary depending on the level of other taxable income in the year (previously 10% and 20% for lower and basic rate taxpayers).
- There will no longer be any indexation for assets owned before 6 April 1998.
- The base cost for assets owned prior to 31 March 1982 will be the market value at that date (previously an election could be made for the base cost to be used).

Given the changes, the key question is should I sell now or later? Like most answers in tax, this depends on your specific circumstances but some questions to ask now include:

1. Do I currently have a business asset or non business asset or a mixture of both?
2. What effective rate of tax will I pay if I sold my asset now or after 5 April 2008 – will it be lower or higher than 18% given the changes to the definition of business assets since April 1998?
3. What effect has indexation have on my final capital gains tax liability – an asset held long before 6 April 1998 may reduce the effective tax rate to below 18%?

If you would like to know the answers to any of the above to help you decide when is the best time to sell, please contact Mark Sheen at mrscs@barlow-andrews.co.uk or Tim Lwin at tl@barlow-andrews.co.uk.