

PRE – BUDGET REPORT 9 OCTOBER 2007

During his Pre-Budget Report the Chancellor announced significant changes to both Capital Gains Tax and Inheritance Tax which are summarised below.

CAPITAL GAINS TAX REFORM

How will these reforms affect you ?

The Chancellor announced in the Pre Budget Report (PBR) that it intends to abolish some tax reliefs and introduce a flat rate of 18% for gains exceeding the annual allowance. The proposals as they currently exist could influence your plans to sell before or after 5 April 2008.

Who is likely to be affected? – Individuals, trustees and personal representatives with a gain which is chargeable to capital gains tax (CGT). Companies that are liable to corporation tax in respect of their chargeable gains are not affected by any of these changes.

General description of the measure – A number of changes to simplify the capital gains tax regime will be made including:

- The withdrawal of taper relief;
- The withdrawal of indexation allowance;
- The abolition of the “kink test” for assets held at 31 March 1982;
- Abolition of halving relief; and
- Simplification of the share identification rules

CGT Reliefs Continuing – Other CGT reliefs will continue to be available including:

- Principal Private Residence Relief ;
- Business asset roll-over relief ;
- Business asset gift hold-over relief ;
- The Enterprise Investment Scheme and Venture Capital Trusts attract a number of CGT reliefs. For disposals on or after 6 April 2008 there will be no taper relief. Other reliefs will continue to apply.

Rate of Capital Gains Tax – For the tax year 2008-2009 there will be a single rate of capital gains tax set at 18 per cent. The rate will apply to individuals, trustees and personal representatives. This will not affect the income tax rates.

Consultation – Details of any consequential changes and draft legislation will be published later this year. In the interim HMRC will be discussing the detail of these proposals with interested parties.

Further advice – we would advise you to contact your relevant partner to discuss these proposals in more detail. There may be action you could take before April 2008 to make use of the current relief available.

WATCH THIS SPACE !

INHERITENCE TAX (IHT) NIL – RATE BAND

Who is likely to be affected ? – Individuals and personal representatives of estates.

General description of the measure – a claim will be allowed to transfer any unused IHT nil-rate band on a persons death to the estate of their surviving spouse or civil partner where they die on or after 9 October 2007.

Current law and proposed revisions – the current IHT nil-rate band is £300,000 for 2007/08, rising to £350,000 for 2010/11. The value of any estate above this band is charged at 40%. Transfers of property between spouses and civil partners are generally exempt from IHT. This means that when someone dies leaving chargeable assets lower than their nil-rate band any allowance would be lost. The new rules will allow any of the unused nil-rate band allowance to be transferred to their surviving spouse or civil partner.

Other matters –

The amount of the nil-rate band potentially available for transfer will be based on the proportion of the nil-rate band that was unused on the first death.

The amount of additional nil-rate band that can be accumulated by any surviving spouse or civil partner will be limited to the value of the nil-rate band in force at the time of their death. This may be relevant where a person dies having survived more than one spouse or civil partner or where a person dies having been married to, or the civil partner, of someone who had themselves survived more than one or more spouses or civil partners.

Where the new rules have effect, personal representatives will not have to claim for unused nil-rate band to be transferred at the time of the first death. Any claims will be made by the personal representative of the estate of the second death when they make an IHT return.