Capital Gains Tax – Gambit's View

The UK Capital Gains Tax (CGT) regime continues to be the subject of extensive scrutiny, with growing speculation that the current framework may be overhauled. Reviews into CGT have been carried out to identify administrative and technical issues, as well as scenarios where the present CGT rules do not meet policy intent.

In November 2020, the Office for Tax Simplification (OTS) published a report recommending that the UK CGT regime should become increasingly aligned with that for income taxes. The OTS warned that continuing with such a large disparity between CGT and income tax rates will incentivise financial planners to re-categorise income flows as capital gains.

The UK's economic response to the Coronavirus pandemic has been underpinned by significant emergency Covid-19 public spending (with the deficit peaking at £303bn in March 2021), resulting in widespread speculation around CGT reform. Alterations to the CGT regime were anticipated in the October 2021 Budget, as a potential solution to mitigate a proportion of the government's emergency Covid-19 spending. However, no changes to the CGT framework were introduced.

Despite no action being taken in October 2021, the UK's fiscal position remains a political concern and with the Conservative manifesto aiming to avoid income tax increases, the Chancellor must consider alternative, more palatable tax-raising measures. CGT does not affect the majority of the electorate and therefore it would seem to be politically less harmful for the Government to implement further changes to this tax.

Potential CGT reform remains firmly on the political agenda in view of the upcoming Spring 2022 Budget. This expectation has caused a surge in UK M&A activity, with shareholders motivated to execute transactions before potentially significant changes to the current regime take effect.

What changes could be made in the upcoming Spring 2022 Budget?

Potential options for the Chancellor to consider include:

- Raise CGT rates to align to, or approach, income tax rates (20% for lower-rate taxpayers and 40-45% for individuals earning over £50,000)
- Reduce or abolish the £12,300 annual exempt amount available to individuals
- Levy CGT on new asset classes – such as private homes and classic cars
- Taxing share-based rewards at income tax rates
- Taxing accumulated cash reserves extracted on transactions at income tax rates, preventing the consideration being grossed up for these

Potential changes to CGT in Spring 2022 are influencing near term shareholder objectives, creating an opportunity for acquirers to capitalise on a rise in available assets and vendors to benefit from currently optimal tax rates. Owners should consider succession planning and advancing business exit discussions with a trusted advisor ahead of the Spring Budget in order to execute potential exit transactions within the current tax regime.

Gambit is an independent corporate finance advisory firm specialising in advising private and public companies on mid-market transactions in the UK and overseas. With offices in London and Cardiff, Gambit is widely recognised as a market leader in corporate finance advice, having built up detailed industry knowledge and an enviable track record in deal origination and execution.

If you would like to discuss the options available and key considerations in preparing your business for exit, please contact a member of the team.

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