

Review of Capital Gains Tax Announced

The Chancellor has recently written to the Office of Tax Simplification (OTS), calling for a review of the UK's Capital Gains Tax (CGT) regime in an effort to reduce the c.£350bn public spending deficit resulting from emergency COVID-19 spending.

The review is designed to identify administrative and technical issues as well as scenarios where the present CGT rules do not meet policy intent. Consideration will be given to the current regime of allowances, exemptions, reliefs and the treatment of losses within CGT, as well as how gains are taxed relative to other sources of income.

Business Asset Disposal Relief (formerly Entrepreneurs' Relief) provides for a lower rate of CGT (10%) to be charged when disposing of all or part of a company's shares or assets, subject to a lifetime limit of £1 million on the calculated gain on transfer. During the March 2020 Budget, the Chancellor significantly reduced the lifetime exemption limit from £10 million to £1 million for qualifying disposals. This change was effective immediately, with many business owners in the concluding stages of exit processes having to forgo significant tax savings.

With the Conservative manifesto vow not to raise income tax, National Insurance or VAT, there are few options left for the Chancellor to consider to offset a proportion of the Government's emergency COVID-19 spending. Furthermore, CGT is a tax that does not affect the majority of the electorate and therefore it would be politically less impactful for the Government to implement further changes to this taxation category.

What changes could be made following the review?

Potential options for the Chancellor to consider include:

- Raise the CGT rates levied in alignment with income tax at varying levels
- 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

In this review, the Government will consider increasing the CGT in alignment with income tax (20% for lower-rate taxpayers and 40-45% for individuals earning over £50,000).

The OTS has published a survey and a call for evidence to seek views about CGT from individuals, professional advisers and representative bodies; which will run until 12 October 2020. The Chancellor is then expected to announce any changes to the CGT regime in his Autumn 2020 Budget.

Many business owners contemplating a disposal were significantly impacted by the reduction in the lifetime limit on Business Asset Disposal Relief announced in March 2020. Any further changes announced in the Autumn 2020 Budget may be effective immediately. Owners should consider succession planning and advancing business exit discussions with a trusted advisor ahead of this deadline in order to explore potential exit transactions within the current tax regime.

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

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