

POTENTIAL INCREASE IN CAPITAL GAINS TAX

Coalition Government Warnings

The Chancellor has announced that he will deliver his “Emergency Budget” on **Tuesday 22 June**, which is less than 5 weeks away.

The new Coalition Government has already publicly stated that the two parties will “**seek a detailed agreement on taxing non business capital gains at rates similar or close to those applied to income, with generous exemptions for entrepreneurial business activities**”.

It is pretty clear that the present flat rate of 18% applicable on gains realised from non business assets, eg second homes, portfolios of shares, buy to let properties, valuable art work etc, will not be around for very much longer. Business assets already receive special treatment, and whilst there may be some protection, it remains to be seen how long that lasts.

It is impossible to second guess precisely what the Chancellor will announce for **non business assets** but at the very least an increase to the present basic income tax rate of **20%** must be considered likely. Even more likely is a hike perhaps up to **40%** or even **50%** to match the current top rates of income tax. Alternatively, gains may be taxed at an individual’s marginal rate of income tax.

It is also unclear when any increase may come into effect. There may be some delay, perhaps until the beginning of the next tax year, 6 April 2011. That could cause a wave of selling as people try to dispose of their assets whilst the rate is still low, which in turn could have significant inflationary pressures on the general economy. The most obvious alternative would be to bring in the new rate(s) from Budget Day itself. Some commentators have suggested that this could be backdated to the start of the present tax year, thereby catching disposals which have already been made. This would be very draconian and therefore perhaps unlikely, but given the current economic straits we are in, it is not impossible.

If you are thinking of disposing of an asset which is likely to realise a substantial capital gain, then you may wish to try to do this, sooner rather than later, to capture the present 18% rate.

If you have such an asset, but don't actually want to sell it, or give it to any other family members, then it is possible to dispose of it, and incur the tax charge, by putting the asset into a trust. Many people are suspicious of trusts and the administrative hassles that they can bring. However, they do have their uses, particularly in just this sort of situation where a tax advantage could be achieved, and where you could still retain control of the asset, as a trustee, and also retain a beneficial interest in the asset, if you wish to do so.

As ever, you should not take action purely to achieve a tax advantage, but if you are thinking of acting anyway, then timing is critical! You must also think of other taxes, and there could be inheritance tax advantages of using trusts which may make things even more worthwhile. Above all don't forget that if you want to take action to capture the gain on your asset at the present low rate, you will have to put your hand in your pocket to pay the tax at some stage!

ACT NOW this opportunity may be available for a very limited period!
To discuss your options further please contact **Richard Crocker** at **Taylor Walton LLP** on **01582 765111** or via email at **Richard.crocker@taylorwalton.co.uk**