

Pre Budget Report and Capital Taxation

The Pre-Budget Report failed to give any indication as to where Capital Taxation is heading. The only item of any significance was the freezing of the IHT threshold at £325,000. Not only does this follow the current Government's habit of increasing taxation by failing to raise thresholds, but the recessionary effects on property and share prices mean that for the present at least this is unlikely to increase the number of people affected by the tax.

More interesting than what was in the Report is what was not there. This inevitably begs the question 'what will happen after the election'? Many people suspect that a Labour victory will result in a tightening of Capital Taxes. History suggests that if the Tories win, Capital Taxation would be largely untouched, however we might well see some painful short term increases in indirect (VAT) or even direct taxation.

So; let's consider what might happen under a new Government.

Capital Gains Tax

The 2007 changes to Capital Gains Tax were supposed to be tax neutral. While that might have been the case for some people, most of the evidence we have seen is that this has saved many people and trusts large amounts of tax. Most commentators seem to expect that it will not be long before the rate of tax is again tied to the taxpayers' top rate of tax, meaning that higher rate taxpayers and trusts will pay 40/50%. Nobody has yet suggested that the ability for spouses and those in civil partnerships to move assets to the lower rate taxpayer is to be changed so this may again become an important defence against the tax. This suggests that it may be wise for couples to move assets with locked in Capital Gains to the partner with the lower top rate of tax. For some people it may even be worthwhile thinking about realising some gains now while the property and stock markets are relatively weak and the tax low.

Inheritance Tax

There are many who seem to think that there is little logic in the availability of 100% relief from tax for qualifying Agricultural and Business Property. Over recent years the Revenue has succeeded in numerous court actions to greatly limit the availability of Agricultural Property Relief.

There have been widespread rumours that the Government was thinking of doing something similar to Business Property Relief, but has not done so yet. Anyone owning a business or having an interest in a business can breathe again but can we be sure of the availability of this relief in the longer term? The answer probably depends on who forms the next Government. The general expectation is that the Tories would not make changes but many think that if Labour won or there was a hung Parliament we might see a reduction in the reliefs. Either way this might be a time to think about whether or not it is worthwhile taking advantage of the current generous reliefs for business assets. With careful planning it is sometimes quite possible to give away much of the value of a business without losing control.

What about the Tory promise of increasing the Inheritance Tax threshold to £1,000,000? Everyone seems to accept that this is an aspiration and the current state of the economy is such that few people seem to think it will happen immediately, but that if the Tories come into power they may seek to progressively increase the threshold over the term of a parliament. Anyone who is concerned about the threat of Inheritance Tax would be wise to consider what they might do to reduce the impact, in particular, think about whether or not you can make gifts at present and rely upon the seven year rule. Once again the relatively low level of property prices and the stock market coupled with historically low levels of Capital Gains Tax mean that this remains a good time to think about this.

Looking further into the Crystal Ball

Prior to the recession it was apparent that Death Duties had gone out of fashion in many Western democracies and the Tory suggestion of substantially raising the threshold was one of a number of ideas being canvassed. An alternative idea which has been put forward by one of the Tory think tanks would be to follow the example of many other countries and abolish Inheritance Tax altogether. The ideas however did not stop just there. It has been suggested that as an alternative to Inheritance Tax there should be a charge to Capital Gains Tax on death in place of the current tax free uplift that comes with death. It is an interesting thought but it is probably too early to speculate on whether this would ever happen, and if so, how it would be implemented.

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