WILKINSON & PARTNERS LIMITED

ACCOUNTANTS

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Important Tax Changes Announced!!

In Alistair Darling's first pre-Budget report a number of important changes were made to the taxation of Inheritance and Capital Gains. For political reasons it was the Inheritance Tax changes that received the most publicity, although it is the fundamental Capital Gains changes that deserve closer attention.

Capital Gains

With effect from 6 April 2008 there will be significant changes to the taxation of Capital Gains.

The rules in the past have been very complex and the changes should lead to some simplification.

Under the current rules the tax payable is based not only on the increase in value of the asset, but the length of ownership and the purpose for which the asset was used. An asset used for your business would be treated much more favourably than other assets, such as quoted shares. In addition the rate of tax was based upon your income and may be subject to tax at either 20% or 40% for a higher rate taxpayer. Typically if you were disposing of a business asset , then you would hope to pay no more than 10% of the gain in tax.

Under the new rules to come into force in April, all gains will be taxed at a rate of 18% on the increase in value. The type of asset and the duration that the asset has been owned will no longer be relevant. Not only will the benefit of taper relief be lost, but if you had owned the asset prior to April 1998, then you would have also benefited from indexation allowance which gave relief for the impact of inflation and this relief will also disappear.

Depending upon your circumstances, you could be better or worse off under the new rules, although it is likely that the tax payable on business assets is likely to be much higher under the new rules and in many cases the difference in tax involved may be thousands of pounds.

As a result of these changes, it is strongly recommended that if you own assets on which there are gains that you should discuss with us the likely tax implications and this applies especially if you are thinking of disposing of business assets during the next couple of years. By bringing forward or deferring a disposal you should ensure that you keep your tax liabilities to a minimum.

As the rules will come into force on 6 April, swift action may be needed if it would be appropriate to ensure that the gains are taxable during the current year.

Please call us if you would like to discuss how the new rules may apply to you.

Business Tax

Earlier in the year the Revenue lost the well documented "Arctic Systems" tax case relating to the splitting of income between couples. Where one of the couples undertook the greater part of the work then the Revenue felt it appropriate that they should be taxed upon the greater income irrespective of how the income was split between the couple.

The government intend to introduce new rules from next April to deal with "Income Splitting" between couples and this is likely to apply to both Small Companies and Partnerships. At present we are not able to advise how these rules will be implemented, but we will be in contact with any clients which we believe will be affected as soon as details of the Revenue proposals become available.

Inheritance Tax

The Government seem to finally be realising just how unpopular this tax has become. With the rise in house prices many more people find themselves affected by this tax.

The change announced allows a married couple to take advantage of both spouses exemptions on the second death. Typically, where one spouse dies they will leave all of their assets to the survivor and these assets will pass tax free. As a result, the surviving spouse will now have a much larger estate and prior to the new rules they would only be able to offset their own exemption, meaning that their spouse's exemption will have been wasted.

As an example and assuming that the Husband were to die first, leaving his estate to his wife, who subsequently dies in the same tax year and with combined assets of £800,000 the tax position would be as follows

	Mr A	Mrs A
Value of Estate	400,000	400,000
Transfer on death	-400,000	+400,000
Taxable Value	Nil	800,000
Less exemption	300,000	300,000
Taxable	Nil	500,000
Tax Payable		200,000

As a result of these changes, the exemption allowable to Mrs A would now be £600,000 and the tax payable would be £80,000. A saving of £120,000!!

Although, the changes are headline grabbing, they are perhaps not quite as generous as might first appear. Whilst these rules will apply to Married Couples and those in Civil Partnerships they will not apply to Unmarried Couples.

In addition, this form of tax relief was available in any event via the correct drafting of a Will which passed assets into a trust and so did not form part of the survivor's estate. Following the changes announced it may be appropriate for those who set up these type of Wills to consider whether they remain appropriate. Whilst they would continue to be effective, they may now add an additional layer of unnecessary complexity.

If you would like further information on this subject then please give us a call.

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