



Will the 2021 Spring Budget bring Capital Tax increases?

On 8 January, HM Treasury published a summary of existing coronavirus economic supports and indicated that the government has spent £280 billion so far. Against this backdrop, Chancellor of the Exchequer, Rishi Sunak, will be under pressure to find revenue-raising measures to finance the economic packages made available. The Spring Budget on 5 March presents the earliest possible date for such change to be announced.

If the Conservative Party is to keep the manifesto pledge not to raise Income Tax, National Insurance or VAT, it may well be that Capital Gains Tax ('CGT') and Inheritance Tax ('IHT') are ripe for reform.

Last summer, Rishi Sunak wrote a letter to the Office of Tax Simplification ('OTS') instructing that a review of CGT, and aspects of the taxation of chargeable gains in relation to individuals and smaller business, be undertaken. The remit of the review was wide, as it was to cover "administrative and technical issues, as well as areas where the present rules can distort behaviour". The Chancellor, in particular, was "interested in any proposals from the OTS on the regime of allowances, exemptions, reliefs, and the treatment of losses within CGT, and the interactions of how gains are taxed compared to other types of income".

The OTS published their First Report on 11 November 2020.

Some of the suggestions for reform include:

- Reduce allowances - CGT annual allowances are currently £12,300 for individuals and £6,150 for trusts. It may therefore be prudent to utilise your CGT tax-free allowance before the Spring Budget, in case it is reduced or removed.
- Raise the rate of tax – CGT rates are at a historically low rate. The Labour Party manifesto committed to tax capital gains at the same rate as income. The Conservatives may see a rise in CGT rates to somewhere in line with dividend rates as a good compromise.
- Erode exemptions and reliefs:
 - Entrepreneur's Relief has already been drastically reduced in the 2020 Spring Budget by replacing it with the less generous Business Asset Disposal Relief ('BADR'). The OTS report proposes further drastic changes to have a relief more focused upon retirement. A range of options included increasing the minimum shareholding from 5% to 25%, increasing the holding period to 10 years, and the introduction of a minimum age.
 - Investors Relief could be abolished.
 - Tax-advantaged share schemes to have greater proportion of share-based rewards taxed at income tax rates.
- Abolish the uplift of asset values at death, thus increasing the gain subject to CGT when the asset inherited is subsequently sold.

The Chancellor must now review the recommendations of the OTS and consider what policy changes should be made. The date for the 2021 Spring Budget has been set for Wednesday 3 March. That is a tight timeline for the Chancellor to bring forward capital gains tax changes therefore he may concentrate on IHT only in March.

The review of IHT has already taken place. Two reports published before the pandemic outbreak suggested changes to the current inheritance tax reliefs available – from the OTS and the All-Party Parliamentary Group for Inheritance and Intergenerational Fairness. Some of the recommendations in these reports would radically curb the inheritance tax reliefs currently available.

Some of the IHT changes discussed were:

- The Potentially Exempt Transfer ('PET') regime whereby unlimited 100% relief is available on lifetime gifts to an individual provided the donor survives for 7 years is open to reform. Some recommended the introduction of a 'gift tax' which would be paid by the donee when the value of the gift passed a certain threshold – similar to the Capital Acquisition Tax regime in Ireland.
- Abolish the small reliefs available such as wedding gifts & small gifts and replace with one single gift allowance.
- Abolish the gifts from normal income relief – Currently individuals can give away unlimited amounts from their income provided there is a pattern of giving and it doesn't affect the donor's standard of living.
- Restrict Business Property Relief and Agricultural Property Relief – HMRC statistics released in July 2020 say that the combined value of BPR and APR given in 2017-18 was £3.5 billion. The total IHT taken in 2019-20 was £5.2 billion. So changes to these reliefs have the potential to greatly increase the tax raised.
- Remove the revaluation of assets to market value on death (the CGT uplift).

What can be done to consolidate and protect family wealth already accrued and is there any way to find a sliver of solace in the current economic situation?

Use the fact that asset values may be temporarily deflated to your advantage by reducing your Estate through the making of 'lifetime gifts' to individuals, or into trusts if control is to be maintained. The capital gains cost, if any, of the asset being disposed is reduced.

Take the opportunity to look at business succession planning. Is it the right time to bring in the next generation, or key staff? Should you consider a gift of shares or even a share scheme? Perhaps there is an opportunity for consolidation by buying-out minority shareholders.

Examine assets that currently attract inheritance tax business property relief, or agricultural property relief. Is now the time to gift in order to secure those reliefs in case they are curtailed in the future?

Check whether the relative values of trading versus non-trading company assets now strains the company trading status for the purposes of inheritance tax reliefs.

Investigate whether capital losses can be crystallised. So, in the midst of all this social and economic turmoil, it may be a good time to get your tax affairs in order. Have that discussion with your trusted adviser circle of accountant, solicitor, and financial adviser, who will give the expert advice appropriate to your particular circumstances, and together will come up with a holistic plan to protect your family's financial future before the 2021 Budget takes place.

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