



Tax Talk with Charles Green

I can't believe you did that Darling!



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On October 9th the new chancellor, Alistair Darling, issued his first pre-budget report. Gordon Brown had introduced these reports during his long occupancy of the post, perhaps with a view to signalling changes well in advance to reduce shockwaves. We always expect a few interesting changes to be announced but Mr Darling has been a lot more radical than expected. Amongst the many proposals announced the ones that surprised us most were:

Capital Gains Tax reform

Mr Darling has proposed many "simplification" measures taking effect from April 6th 2008 for individuals, trustees etc (but not companies), the headlines being:

- *No more taper relief*
- *Accrued indexation allowances will be lost*
- *A flat rate Capital Gains Tax rate of 18%*

This is quite astonishing. The widely praised 10% (effective) rate introduced by Mr Brown via business asset taper relief, which has encouraged entrepreneurs to go into business, is now to be withdrawn by his successor. Millions will be affected including the lower paid employees of quoted companies who have been rewarded through share schemes.

The loss of indexation (inflation) allowances previously accrued means that in some cases the disposal of assets that could have been sold free of tax will now result in tax charges.

For the 18% flat rate there will be winners and losers. Those holding business assets will generally be losers. Those holding non-business assets, such as residential investment property, will often be winners.

All taxpayers holding capital assets should review their situation. Those holding business assets will want to consider whether they make disposals prior to April 6th 2008. Conversely, those considering the sale of non-business assets may wish to consider delaying until the 18% tax rate is in place.

Caution is required, however. A consultation process is underway and there has been a furious reaction to the proposals. It will be

surprising if we do not see concessions before the legislation is finally foisted upon us.

Inheritance Tax Nil Rate Band

From October 9th 2007, it is possible for spouses and civil partners to transfer their unused IHT nil rate band to the surviving spouse or civil partner. Anyone whose spouse died before this date can also benefit from the new rules and, for once, this retrospective element is to be welcomed.

The amount available for transfer will be based on the proportion unused on first death. For example, if the first spouse died in 1990/91 when the IHT nil rate band was £128,000, leaving a chargeable estate of £51,200, then 60% of the original nil rate band would have been unused. If the survivor dies today when the current nil rate band is £300,000, then the combined nil rate band on the second death would be £480,000 [$£300,000 \text{ plus } 60\% \times £300,000$].

The amount of the additional nil rate band that can be accumulated is limited to the value of the nil rate band in force at the time of death. This may be relevant where a person dies having survived more than one spouse or civil partner.

A claim for the transfer must normally be made by the personal representatives within two years of the end of the month in which the survivor dies.

Those with nil rate band discretionary trusts written into wills may need to revisit their planning.

Residence and domicile review

Individuals who are resident in the UK but are "domiciled" abroad have enjoyed long standing tax advantages. An individual's domicile is often different to their country of residence or their nationality - it relates to the place they believe is

their permanent home. Those domiciled abroad often take advantage of their status by avoiding UK tax on income generated offshore on the grounds that it is not brought into the UK (because they are taxed on the "remittance" basis).

The government does not believe it is fair for long term UK residents to benefit from their non-domiciled status in this way. Consequently, it proposes to charge non-domiciled individuals a £30,000 additional annual tax charge once they have been UK resident for seven years if they want to continue to benefit from the remittance basis in future. Alternatively, non-domiciled individuals can simply pay tax on their world-wide income like everyone else.

They also propose to close other loopholes relating to the systematic closure of income sources and manipulation of the remittance basis.

Those wanting to avoid UK resident status often seek to achieve this by limiting the time they spend here to less than 91 days annually. However, this is about to become a little more difficult to do as it is proposed that, in future, days of arrival and departure will count as days in the UK, which they did not before.

Again, there is a consultation process underway and it will be a while before we have confirmation of the new rules.

These changes will not unduly worry the super rich as £30,000 may be just pocket money to them. However, there will be those with a few million pounds that will now consider whether they should remain resident in the UK.

If you are concerned that any of the new provisions may affect you, please call Charles Green on **020 7022 0050** to discuss this matter further.



To discuss the pre-budget report proposals, or any other tax issues for you or your business, please contact Charles Green on 020 7022 0050 or email crg@clarksonhyde.com

