ATT Welcome

Welcomes

01 March 2015

Happy birthday CGT!

It’s hard to believe that capital gains tax (CGT) turns 50 in April 2015.

OK, there are a lot of taxes that have been introduced since 1965 and CGT is nowhere near as old as income tax, but it does feel like it’s been a part of the tax landscape for as long as I can remember.

So what else was happening in 1965?

The state funeral of Sir Winston Churchill in January stood out for me. But I was also struck by the civil rights march from Selma, Alabama, led by Martin Luther King, and the appalling violence.

On a lighter note, Thunderbirds made their first appearance on our screens – black and white of course (colour didn’t begin to happen until 1966 under David Attenborough) and the Beatles took Shea Stadium by storm. Dr Who was only two years old.

CGT was introduced at 30% during the Wilson administration when James Callaghan, then chancellor wanted to stop people avoiding income tax by switching their income into capital.

Oh that great divide! How much ink has been spilled on that point?

It’s worth recalling that some of the old case law our members learn about, for example, toilet rolls and whether selling a squillion toilet rolls in one go was ‘a venture in the nature of a trade’, were born in that pre-1965 era; income was taxed, capital appreciation was not.

Other significant CGT milestones include 1982. With inflation rocketing past 20%, chancellor Geoffrey Howe introduced the indexation allowance until this was struck down in 1998 in Gordon Brown’s first Budget, when he replaced it with taper relief. The longer you held the asset, the lower the rate of tax you paid on it.

Ten years later Alistair Darling marked his first Budget by scrapping the dual rate of CGT and introducing a lower single rate of 18%. In so doing he cut the tie to income, but he also scrapped taper relief.

So is it a successful tax?

I’m sure most people would agree that any state needs a broad tax base, and capital and revenue are good starts. But we all know that when a tax base is too high, taxpayers will spend more time trying to avoid it.

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The take from CGT appears to be on the slide: from £4.337 billion in 2011/12, to £3.927 billion in 2012/13 to £3.908 billion in 2013/14. Could this be an example of the Laffer curve effect? (The Laffer logic says that there is an optimum tax rate that will be acceptable to taxpayers and, if it’s too high, they will go out of their way to avoid it.)

CGT and the number 50 appears again in the wasting chattels rules. A wasting asset is one with a predictable life of 50 years or less. Unless you have, or could have, claimed capital allowances for it, any gain on the disposal of a chattel which is a wasting asset is exempt from CGT.

Certain chattels are always treated as wasting assets; for example, plant or machinery. If capital allowances could have been claimed on the cost of the chattel, for example, because it was used in a business, any gain on its disposal will not be exempt. You estimate the predictable life of a chattel as it appeared to be when you originally acquired it. You have to decide what its useful life would have been, bearing in mind the purpose for which you acquired it.

CGT remains a challenge to us all, and operates in a fast-moving landscape. New legislation on the PPR and non-domiciled CGT needs mastering in 2015.

As tax advisers we have our work cut out, as usual.

Still more on the bereavement notification system

My postbag has positively bulged on this issue and how it’s not working, so I will go to print about this in Tax Adviser a bit later in the year once I’ve had a chance to assimilate all the excellent comments I’ve had from members.

Thanks all.