

sixty second update

The 60 second update covers topical subjects in no more than 60 seconds; this issue examines entrepreneurs' relief post-budget.

entrepreneurs' relief

■ **Prior to the changes brought in by the 2008 Budget, individuals, partnerships and trusts paid capital gains tax at 20% (or 40%, if they were higher rate tax payers) on gains as adjusted by taper relief (and indexation allowance if the asset had been owned prior to 1998).**

Taper relief and indexation allowance have been abolished from 6 April 2008, and capital gains tax is now charged at 18%.

If an individual sold a business asset prior to 6 April 2008, and that asset had been owned for two years or more, full taper relief of 75% was applied, giving an effective tax rate of 10% to a higher rate tax payer.

To mitigate the effects of the new 18% rate, entrepreneurs' relief was introduced from 6 April 2008. This relief is available on the disposal of all or part of a trading business, the disposal of assets which were used for the purposes of a business that has now ceased, and also on the disposal of shares in a trading business provided the disposal is by an employee or officer of the business owning 5% or more of the voting rights in the business.

For these purposes a trading business includes furnished holiday lettings but not other property letting businesses. The business or shares have to have been owned for at least a year to qualify. Gains up to £1m are taxed at an effective rate of 10%. The £1m is a lifetime allowance.

Any qualifying gain up to £1m has a deduction of 4/9 applied, leaving 5/9 of the gain subject to the 18% tax, which gives an effective rate of 10%.

The 2008 Budget did not change the position for companies, who still pay corporation tax on chargeable gains, and are still able to apply indexation allowance. Companies cannot claim entrepreneurs' relief.

The other main change to capital gains tax for individuals, trusts and partnerships is that assets held at 31 March 1982 must now have their cost rebased to a 31 March 1982 value. This rebasing is now compulsory, whereas it used to be optional.

ACCA has produced a schedule with five worked examples to illustrate the capital gains tax changes, and a pro-forma computation. To obtain these, please e-mail advisory@uk.accaglobal.com with 'entrepreneurs' relief' in the subject line. ■