Families facing increased tax charges?

There is no doubt that the COVID-19 pandemic has turned many people's lives upside down and caused a lot of uncertainty in financial markets. With the ever-changing rules and regulations causing the government to come up with numerous grants and schemes to try and keep the economy afloat, speculation has been rife as to whether taxes will need to be raised to plug the gap left by these support packages.

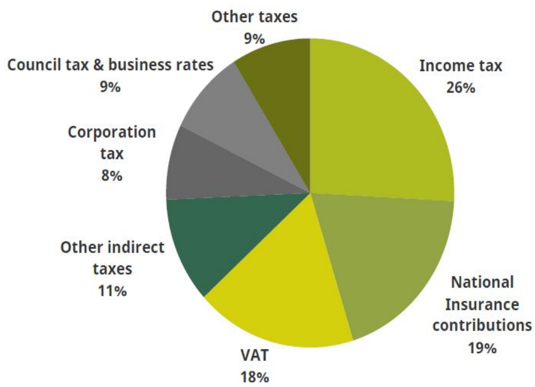
As far as personal tax matters are concerned, there have been numerous predictions, many of which relate to the Capital Gains Tax (CGT) regime. The concern that there will be an overhaul of the CGT rules has been heightened by the Chancellor asking the Office of Tax Simplification (OTS) in July to review the CGT legislation. The scope of the brief is wide and there have been numerous suggestions about the changes which may come into force, some of which include:

- An increase to the current rates of CGT, which are historically low. (Generally, 20% for stocks and shares etc or 28% for residential property gains.) Some believe that the rates could be raised to come in line with income tax rates, which could be as high as 45%.
- A reform of the Principal Private Residence Relief (PPR) rules for the sale of an individual's main home. The government has not been against making changes to this relief in the recent past and the relief has already been restricted from 6 April 2020 with a reduction of the final ownership period that qualifies for PPR and changes to the availability of letting relief. There has been speculation that the PPR relief might be replaced with a type of rollover relief instead.

Another hot topic has been the possibility of reforms to the Inheritance Tax (IHT) system. The OTS issued a report in July 2019 with recommendations for possible changes which included:

- Reforms to Business Property Relief (BPR) to increase the level of trading activities necessary to qualify for this.
- The abolition of the CGT uplift on death where IHT reliefs are available on the asset (such as the inter-spouse exemption, BPR or Agricultural Property Relief) so that the beneficiary is not benefiting from relief for both IHT and CGT.
- The replacement of the different reliefs on lifetime gifts with a single relief and the reduction of the period in which lifetime gifts are subject to IHT from 7 to 5 years.

There is, of course, also potential for increases in the rates of Income Tax (IT) or National Insurance Contributions (NIC). IT and NIC make up by far the biggest slice of the tax collection pie so a small increase could have a much more significant impact than a change to the capital taxes regimes.



Source: Author's calculations based on OBR, *Economic and Fiscal Outlook: March 2019*, https://obr.uk/efo/economic-fiscal-outlook-march-2019/.

The Conservative party did make a manifesto promise that IT and NIC rates would not be raised. There is, however, the added dimension that the Scottish Government has the power to set the income tax rate for Scottish taxpayers in so far as they are applied to earnings and rental income. (Savings income continues to be taxed at the UK rate.) With the cancellation of the Autumn 2020 Budget, all eyes are now on what the Chancellor, Rishi Sunak, will do in the Spring 2021 Budget but a Scottish Budget is expected before then and that could be very interesting indeed!

All of this is, of course, just speculation but it has led to many wondering whether now is the time to review their affairs. Should they be accelerating any gains to lock-in the certainty of the low CGT rates? Is it time to consider passing on assets to the next generation to "bank" the available IHT reliefs? Sadly, we do not have a crystal ball to answer these questions and individual circumstances will dictate the potential benefits involved. There is, however, no doubt that it is timely for all to consider the options open to them and their families.

For more information, please contact:

Moira McMillan

Personal Tax Director

mail@chiene.co.uk

0131 558 5800