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NEW CAPITAL GAINS TAX RELIEF FOR ENTREPRENEURS - 10% RATE FOR UP TO £1M OF LIFETIME GAINS

In a partial concession, the Chancellor has announced changes to plans for a flat rate tax of 18% on capital gains, originally proposed in the Pre-Budget Report last October. Following representations from interested parties, the Chancellor has now proposed an effective tax rate of 10% for individuals on lifetime gains of up to £1M on qualifying trading assets. Any such gains in excess of the lifetime limit will be charged at 18%.

THE NEW RATE TAKES EFFECT FROM 6 APRIL 2008 AND WILL APPLY TO:

- Gains made on the disposal of all or part of a 'business'
- Gains made on disposals of assets formerly used in a business following the cessation of the business (for a limited time period after cessation)
- Gains on disposal of shares in a 'trading' company, and associated assets, provided that the individual making the disposal has been an officer or employee of the company and holds a stake of at least 5% in the company

A 'business', in terms of this relief, will include any trade, profession or vocation, excluding property letting businesses, but furnished holiday letting may be treated as a trade. An individual will be able to make claims for relief on more than one occasion, up to a lifetime total of £1M of gains qualifying for relief.

The new relief does go some way to compensate for the loss of taper relief. However, those who have held business assets for a long time may find that gains will nevertheless increase for disposals after 6 April 2008, because of the withdrawal of indexation.

PLANNING

Although detailed legislation is not yet available, we recommend that you review your assets now. Those with long-held business assets may be able to avail of a lower CGT rate, e.g. by bringing forward a disposal of business assets or crystallising a gain on such assets before 6 April 2008. Preserving indexation via inter-spouse transfers before 6 April 2008 may also be considered. Those with non-business assets, such as second homes or other investment assets, should also review their position before 6 April 2008.

If you would like to discuss these changes and how they may impact upon you, please contact a member of our Tax Team below on 028 9031 1113 or by email:

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FEBRUARY 2008