Examining the impact of Labour's capital gains tax changes

We spotlight the various measures announced in the Budget, consider their implications and suggest some tips on what to do.

After speculation about capital gains tax (CGT) that began even before Labour clinched their election victory, there was finally news in the Budget of a rise in the basic rate from 10% to 18% and from 20% to 24% at the higher rate.

The new rates will match those for disposals of residential property (which will stay the same) and although the increases are significant, they're not as high as some had feared.

The new rates apply immediately – that is, to transactions completing on or after 30 October 2024. This means different rates will apply to transactions in the same tax year, adding to the complexity for taxpayers when reporting disposals for the 2024/25 tax year. Don't forget, disposals of UK sited real estate must be reported, and any tax paid, within 60 days of completion.

The CGT annual exempt amount for individuals and personal representatives remains at £3,000 for 2025/26 and the annual exempt amount for most trusts will stay at £1,500.

Mitigation opportunities will be more valuable following the increase in rates. These include reviewing ownership structures of assets and making use of tax-free transfers of assets between civil partners or spouses before a sale, or selling other assets standing at a loss to reduce taxable gains.

Business asset disposal relief and investor's relief changes

The reduced rate of CGT applicable to disposals qualifying for business asset disposal relief (BADR) and investor's relief (IR) will increase to 14% from 6 April 2025 and to 18% from 6 April 2026.

A further change was the reduction of the lifetime limit for IR to £1 million for all qualifying disposals made on or after 30 October 2024, bringing it in line with BADR.

Coupling the increased tax rates for these reliefs with the general increase in CGT rates (which impacts gains over the lifetime allowance) will lead to a significant increase in the amount of CGT payable on the sale of a business in the future.

The concern now is that future transactions, such as the sale of business assets, could be put on hold due to the amount of tax that would arise on a disposal.

If you think you might be affected by any of these CGT issues, please get in touch with your Shipleys contact and speak to them about structuring, succession planning and provisional calculations to make informed decisions regarding asset disposals.

There's more on the CGT changes on the gov.uk website at: ***https://tinyurl.com/2x2as7ah***

All change for non-domiciled tax status

Chancellor Rachel Reeves confirmed a significant shift in how foreign income and assets are taxed for non-domiciled individuals (non-doms).

The new foreign income and gains (FIG) tax regime will come into effect on 6 April 2025 and the previous 'remittance basis' system will end. This allowed non-doms to keep foreign income and gains outside the scope of UK tax if not brought into the country.

Under the FIG system, non-doms who have not been UK tax residents for any of the previous 10 consecutive years can benefit from a full exemption on their foreign income and gains for the first four years after becoming UK residents.

After these four years, non-doms will become fully taxable in the UK on all income and gains, regardless of where they are sourced. Residency status under the statutory residence test (introduced in 2013) will determine eligibility for the FIG regime.

Need assistance?

Please reach out to your Shipleys advisor. There's more detail – including inheritance tax and overseas workday relief implications, and how non-doms who benefited from the old system can 'rebase' their personally held foreign assets – on the Shipleys website at: ***https://tinyurl.com/yjut3u84***