Is Chancellor Sunak set to announce tax reforms?

This summer, as UK government spending crept towards the historic £1 trillion mark amid the COVID-19 chaos, Chancellor Rishi Sunak commissioned a fresh review of capital gains tax (CGT). Despite HM Treasury's claims that this was merely part of a standard internal audit, the move immediately prompted speculation of wider reforms to the UK tax system.

While reforms in the government's approach to taxation are certainly possible, the holy trinity of income tax, national insurance and VAT have previously been marked as safe (at their current levels) by the government. Policy commentators have noted – perhaps astutely, perhaps crudely – that this leaves CGT as the obvious candidate for potential reform.

Capital gains tax is the obvious candidate

The review commissioned by the Chancellor was expected to focus on CGT rates and reliefs, as well as analysing how CGT interacts with other taxes. And yet, given the large funding hole the Treasury needs to plug, reforms to CGT could offer only very limited reward. Currently applicable to profits from assets such as investment in shares (10% or 20% depending on your tax rate) and property sales (18% or 28%, and excluding primary residences), CGT generates less than 1% of Treasury income. Each individual is also entitled to an annual exemption, allowing them to realise gains of up to £12,300 tax free. It is worth noting that in his last budget the Chancellor scaled back the limit for Entrepreneur's Relief from £10m to £1m meaning business sellers will pay 10% on lifetime gains of up to £1m, compared with £10m previously. Gains above £1m will be charged standard CGT rates - 20% for higher-rate taxpayers.

Despite its relatively low contribution to the nation's coffers, as the date of the Autumn Statement approaches, some commentators continue to suggest that the Chancellor will close the gap between CGT and income tax rates. This would be a dramatic move; for higher rate tax payers realising gains on a second property, for example, an exact alignment with income tax would loosely mean incurring CGT of 45% rather than 28% on any profit from the sale. More alarming still, some commentators have even pointed towards the possibility of removing CGT exemptions for the sale of primary residences.

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Extreme reforms are unlikely, but we could see some changes

We think it is unlikely that Chancellor Sunak would raise CGT to the same levels as income tax, or remove CGT relief on primary residences. Christine Ross, Client Director and Head of Private Office (North) at Handelsbanken Wealth Management, says:

“The Chancellor’s plans have been subject to varied speculation, and much of what has been put forward in the press should probably be taken with a pinch of salt. Abolishing CGT relief on primary residences, for example, would be a staggering move for very little gain, particularly as it would cripple an already weakened UK housing sector.”

“But while extreme reforms are not something we would expect to see in the Autumn Statement, this does not mean that CGT will be left untouched. While the Chancellor may not opt to align CGT precisely with income tax levels, he could certainly look to narrow the gap.”

Consider your own tax position and always take professional advice

Making significant changes on the grounds of pure speculation is never advisable. But for those who had already planned to raise money from the sale of some of their assets, it may be worth considering if changes to CGT rates would impact the timing of their decision. As Christine notes:

“If you had already planned to realise some gains in the near future, or if you believe that your income in this tax year is lower than it will be in the next, now could provide a timely opportunity to act. Seeking advice about doing so ahead of the Autumn Statement might turn out to be a prudent move.”

It is worth bearing in mind that selling an asset that incurs a tax liability which must be paid will, of course, deplete your capital. There are also stringent tax rules around reinvesting any gains made. It is therefore important to seek advice on your tax position before making any significant decisions.

The value of investments and any income from them can fall and you may get back less than you invested.

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