

## Withdrawal of Taper Relief – a buying opportunity By James Hutchinson, October 2007

On 9 October 2007, the Chancellor delivered his first Pre-Budget Report. From 6 April 2008, all disposals made by individuals, trustees and personal representatives will be subject to a single rate of charge to capital gains tax ("CGT") of 18%. This represents an opportunity for companies looking to acquire owner-managed businesses.

### Current 10% effective rate of CGT

At present, an individual is chargeable to CGT at the rates for income tax on savings income (10%, 20% or 40% in the tax year 2007 – 08), treating his or her net chargeable gains (after deductions of allowable losses, taper relief, Annual Exempt Amount etc) as the top slice of his or her income. Taper relief permits an individual to reduce the amount of the gain chargeable to CGT (and hence reduce the effective rate of tax payable on the gain). The amount of relief available depends on the length of time an asset has been held and whether the asset is classified as a business or non-business asset for taper relief purposes. For example:

- A director of an unlisted company selling 100% of his shares may only be liable to CGT at an effective rate of 10% if he or she has held the shares for two years.

### Proposed 18% rate of CGT

For disposals of shares on or after 6 April 2008 and held over gains coming into charge on or after 6 April 2008, taper relief will no longer be available and the chargeable gain will be liable to CGT at 18% (subject to the deduction of allowable losses, Annual Exempt Amount etc). For example:

- The same director as above selling his shares on or after 6 April 2008 would now be liable to CGT at 18%.
- Impact of changes

The withdrawal of taper relief will be introduced in the Finance Bill 2008. HM Revenue & Customs are consulting with interested parties on the changes and so it is difficult at this stage to know exactly how the withdrawal will be implemented. However, based on the information published to date, we consider that the withdrawal of taper relief will have a direct impact on anyone in the process of, or thinking about, selling their business. In particular:

- **Vendors subject currently to 10% rate of CGT** – will be considering whether a sale on or before 5 April 2008 will be more profitable than a later sale which will be subject to CGT at 18%.
- **Vendors subject currently to 40% rate of CGT** – will be considering whether a sale on or after 6 April 2008 will be more profitable than an earlier sale, as the gain will be subject to CGT at 18%.

### Opportunities for purchasers

Companies interested in acquiring owner-managed businesses should view the withdrawal of taper relief as a buying opportunity. Many vendors will be actively looking for purchasers so that they can exchange on or before 5 April 2008 and avoid the tax increase. We suggest the following strategy:

- **Funding** – ensure that your funding arrangements are in place. It is likely that there will be substantial competition in the market in the run-up to April 2008 and purchasers who are able set out the source of their consideration (e.g. cash, shares etc), and prove they can move quickly, will be at a distinct advantage.
- **Advisors** – get your transaction team in place, including financial, legal, in-house due diligence etc.
- **Bargaining position** – in the first few months of 2008, the balance of power is likely to shift from vendors to purchasers, as vendors realise that if they do not exchange before 6 April 2008, they will incur an additional 8% tax on any chargeable gain.

If you would like further information on the withdrawal of taper relief and how it might affect your future acquisitions, please contact:

E: [Michael Archer](#)

E: [Martin John](#)

E: [James Hutchinson](#)

T: +44 (0) 20 7240 3474