

UKSA

UK SHAREHOLDERS' ASSOCIATION

The voice of the private investor

Richard J Thomas
Inland Revenue, Capital & Valuation Division, Room 308,
22 Kingsway
London WC2B 6NR

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Dear Mr Thomas

CAPITAL GAINS TAX SUBMISSION

I am writing on behalf of the UK Shareholders' Association, the independent, voluntary body representing private shareholders.

Last month, I spoke to your colleague Mr Evers, and I was given to understand that your primary concern at this stage is to hear practical proposals for making the workings of capital gains tax both simpler and fairer, and for encouraging long-term investment.

At the time, I suggested that UKSA might be able to put forward a proposal to address these aims. Our Executive Committee has now had an opportunity to consider and approve the proposal - I apologise that it reaches you at such a late stage in your consultation.

You may recall that I also spoke to you about two weeks ago, to ask if you had received a copy of our Chairman's letter to the Chancellor of the Exchequer describing our position on CGT, PEPs and ISAs. I enclose a copy, although I note that some aspects of this letter are now superseded by the current proposal.

Our basic proposal is that shareholders be allowed to put their funds into a **Personal Investment Account**. Transactions within the Account would not be subject to capital gains tax. Withdrawing funds equivalent to the original capital (adjusted for inflation and the annual CGT allowance) from the Account would also not attract any tax. However, once such funds had been withdrawn, further withdrawals - effectively profits - would be subject to income tax at the appropriate marginal rate.

The proposal has three main purposes, all consistent with the aims of the consultation:

- to dramatically simplify the whole process of calculating and applying CGT;

- to remove the perversities and distortions associated with the tax, whereby shareholders realising identical capital gains over a number of years are faced with very different levels of CGT, purely because of the timing of those gains;
- to remove the discrimination in favour of collective funds, whereby a portfolio of direct shareholdings is subject to repeated CGT every time holdings are sold and reinvested within the portfolio, whereas investors in a collective fund are subject to CGT only once, when they withdraw capital from the fund.

The proposal cannot be described fully in a few paragraphs. I am therefore enclosing a basic guide describing the proposal in much more detail, together with the benefits to private shareholders and to the government and a worked example of an Account lifecycle.

Mr Evers indicated that any proposal for rolling over CGT within a portfolio is unlikely to find favour if it requires that detailed records of all transactions within the portfolio are retained, since it will actually increase the cost and complexity of calculating the tax to an unacceptable degree.

We believe that this proposal resolves that basic problem, by removing individual transactions within the Account from the calculations altogether, and instead basing the calculation of tax on the movement of funds into and out of the Account. The Account would not be much more complex or expensive to administer than a self-select PEP. The proposal might reduce income to the Inland Revenue by deferring some taxation and removing the existing repeated taxation of direct shareholdings. However, this would be balanced by a substantial reduction in the cost of calculation and collection, both to shareholders and to the Inland Revenue.

The enclosed brief guide does not address all possible aspects of the proposal - for example, the issue of death duties on Account holdings. However, we believe that the basic model is sufficiently robust, flexible and elegant to allow such issues to be addressed in a simple and fair manner.

We hope that you will be interested in pursuing this proposal, and I shall be very happy indeed to answer any questions that you may have.

Yours sincerely