

## Press Release

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## UKSA Demands Reintroduction of Indexation for CGT

The UK Shareholders Association (UKSA) is concerned that insufficient consideration has been given to the impact on private shareholders of the proposed Capital Gains Tax (CGT) changes. Although we welcome the intention to address the complexities of the existing system and to tax private equity funds more equitably, we think the changes will negatively impact private investors and further discourage them from investing in UK companies.

It seems to us unfair to tax apparent gains due to inflation, and to apply the change retrospectively. The longer shares are held the greater the likelihood that gains that arise solely from inflation are taxed as if they were real gains. Even when inflation is low the effect is significant and as RPI is now over 4% it is no longer low; since April 1998 when indexation was replaced with taper relief the RPI has increased by nearly 30%, and the current global demand for basic resources threatens an era of unavoidable rising inflation.

The hardest hit will be basic rate taxpayers who have held assets for several years. For example, on a gain of £20,000 on an asset held for ten years, they stand to suffer almost a four fold tax hike – paying £1890 as opposed to £500 if the current regime were to continue (assuming taper relief to 60%, and next year's basic rate tax of 20%, and CGT allowance of £9500). Higher rate taxpayers who have held an asset for 10 years will be surprised that they too will pay more, and will not reach the break even point between the taper relief system with 40% tax and the 18% flat rate until they have a gain of about £34K. Below this figure they will be paying more under the new system. For example, with a gain of £20K, under the current regime they would pay £1000 compared with £1890 under the 18% flat rate system.

Only short term holders, who do not qualify for taper relief, benefit from the new system paying only 18% rather than 20% or 40% on their taxable gains.

Investment in qualifying AIM shares will suffer substantially from the loss of the two year relief and some are saying it will no longer be worth the additional risk of investing in that market. It may hence have a very damaging effect on the provision of finance for smaller companies who have gained major benefits from the availability of listing on AIM.

Brushing away the above arguments on the grounds that gains can be managed within the annual allowance carry little weight when cash-only takeovers of major companies are increasing, or when someone facing a major life crisis needs to liquidate their savings. Worst affected will be the elderly holders of one or two defensive blue chips who have sat on shares for well over ten years and now need to fund re-housing or care.

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There appears to be a cross-party consensus on the desirability of encouraging long term investment, and we understood that taper relief was introduced to meet that objective. We are urged to provide for ourselves as the proportion of aging dependents rises. What conclusions are we to draw from the latest announcements?

It seems to us that a fairer and more sustainable CGT regime for private investors should include full indexation relief which adequately reflects the real cost of living, some incentive for holding assets of any kind for long periods, stability in incentives for investing in high risk and developing businesses and no retrospective taxation.

We feel strongly that there is a place for private investors to play a long term ownership role in the UK. Hasty changes which have not been thought through do not help.

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A more extended note on this subject is present on our web site at:  
[www.uksa.org.uk/UKSA\\_Press057\\_CGT\\_Notes.pdf](http://www.uksa.org.uk/UKSA_Press057_CGT_Notes.pdf)

For an excellent summary and commentary of the impact of the proposed changes, see <http://www.icas.org.uk/site/cms/contentviewarticle.asp?article=5208> where the Institute of Chartered Accountants of Scotland express their view in uncharacteristically strong terms:

“..Chancellor’s announcement concealed the true impact of the proposed scrapping of longstanding reliefs aimed at keeping inflationary gains out of tax” ....  
“ hiding vast stealth increases in effective CGT rates” ... “astonished to find the Government favouring short term speculation”.... “We would urge the Chancellor to think again”

**About the UK Shareholders Association (UKSA)**

UKSA is the leading independent organisation which represents the interests of private shareholders in the United Kingdom. We campaign to protect the rights of shareholders in public companies, and to promote improved standards of corporate governance. Our educational activities, regular regional meetings, company “analyst” meetings and the resources of our web site, help to inform the public on investment management. UKSA is a “not for profit” organisation which is financially supported primarily by its individual members.