

Press Release

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Pre-Budget Review Call to Protect Savers from Inflation

UKSA Chairman's Open Letter to Chancellor Alistair Darling

In an open letter today to Chancellor Alistair Darling, chairman of the UK Shareholders' Association Martin White calls for the restoration of inflation relief from capital gains tax.

"The capital gains tax changes of the last couple of years need to be rethought," he writes, "in the interest of both fairness and long term stability. Inflation has not gone away; it is the biggest threat to savers."

UKSA is not calling for tax reductions, but for reinstatement of, *"a form of indexation to offset the artificial effect of inflation on capital gains tax."* UKSA is adamant that, *"Capital should be taxed only on real gains."*

Quoting the case of a unit trust investor over the 20 years to 2007, during which retail prices doubled, Martin White points out that if the value of an investment had simply kept pace with inflation, but it then came to be sold in favour of a new investment, the CGT suffered by the investor, at 18%, could reduce the investor's true asset value by as much as 9%, which UKSA calls "regressive and deceitful" as there would have been no real gain to the investor for the government to tax.

"I call upon you," writes Martin White, to reinstate indexation "now", as *"there is a clear risk and a deep fear that over the next ten years (inflation) will be more damaging than anything seen in the past twenty."*

He concludes, *"Capital growth for individuals, beyond the constraints of ISAs and SIPPs, is a key ingredient in promoting the better savings culture that is widely thought to be necessary for the UK's future prosperity. Such individuals deserve to be treated fairly."*

Martin White's letter to the chancellor, a copy of which is given below, also appears on the front page of October's *The Private Investor*, the monthly magazine of the association. This initiative is one of a number that UKSA has been taking in recent months, in pursuit of a fairer deal for individual investors generally who, UKSA claims, *"tend, most unfairly, to be lumped in for criticism with institutional investors and hedge funds."* The difference, UKSA maintains, is that only individual investors can be relied upon to behave as true owners of businesses, concerned for their long term health and prosperity. UKSA's membership has been growing rapidly, as more private investors have realised the extent to which they have not only been increasingly disadvantaged (such as by being denied voting rights through compulsory use of nominee accounts for ISAs and SIPPs), but are regularly disregarded by those charged with improving the investment environment, which UKSA is determined to change.

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An Open Letter to the Rt Hon. Alistair Darling MP

Dear Chancellor,

On behalf of my members, but also private investors generally, I ask you to consider the following as you prepare your pre-budget review.

The capital gains tax changes of the last couple of years need to be rethought, in the interest of both fairness and long term stability. Inflation has not gone away; it is the biggest threat to savers. Indeed there is a clear risk and a deep fear that over the next ten years it will be more damaging than anything seen in the past twenty.

Governments set tax levels. We do not ask for lower taxes. But saving and investment are long term processes. People need stability to plan their finances; and capital taxes levied on nominal gains without recognition of inflation are punitive without justification. Capital should be taxed only on real gains. And capital losses should be carried forward against future profits after indexation. These principles deserve cross-party support.

Outside the public sector with its index-linked pensions, most people now have to take responsibility for their own financial security and must save from income if they are not to be severely limited in retirement. Building up savings in and out of pensions should be encouraged; this reduces reliance on the State and improves life choices for people and their families. We should move to a culture of thrift and away from consumer spending if we are to pay our way in life and in the world.

In the twenty years to 2007, retail prices doubled. To illustrate the unfairness, please consider a unit trust investor over that period. If the trust paid a dividend of 4%, increasing over time just to match inflation, and the market price of the units did the same and therefore doubled but produced no more than this, the investor has hardly made her fortune but her living standards have not fallen.

However, after twenty years, if she sells the units to reinvest, she has made no *real* capital gain, but the *nominal* gain for CGT purposes is 50% of the whole. A tax of 18% on this results in a 9% drop in her assets and a 9% drop in her standard of living. How can this be fair? She is now worse off than she was twenty years ago.

Of course, this is ameliorated by the annual tax free allowance and some lucky investors will make big enough gains not to be left worse off after tax at 18%, even without indexation relief or taper relief. But a system which requires regular buying and selling of assets to avoid paying tax on inflation, or depends upon luck or special circumstances to avoid it, cannot be just. Not giving indexation relief is both regressive and deceitful.

On behalf of all private investors, who as a class tend, most unfairly, to be lumped in for criticism with institutional investors and hedge funds, I call on you to reinstate now a form of indexation to offset the artificial effect of inflation on capital gains tax. Capital growth for individuals, beyond the constraints of ISAs and SIPPs, is a key ingredient in promoting the better savings culture that is widely thought to be necessary for the UK's future prosperity. Such individuals deserve to be treated fairly.

Yours sincerely

Martin White

Chairman, UK Shareholders' Association

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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.

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