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10 June 2010

The Rt Hon George Osborne
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Dear Chancellor

POST ELECTION BUDGET – CAPITAL GAINS TAX CHANGES

The businesses on our Tax Finance and Legal Committee have been following discussion on the post election Budget and we are writing to you with several key points that we believe should be taken into account when designing the future capital gains tax system that may apply following the Budget on the 22nd June 2010. These are as follows;

1. We understand that it is intended that there will be generous exemptions for entrepreneurial businesses. We believe this is essential to incentivise entrepreneurs to continue taking risk and working hard to build businesses.
2. We understand that there are proposals to raise the rate of capital gains tax, to income tax rates, on gains arising from the sale of non business assets. We feel this is inappropriate for various reasons which include the following;
 - a). The boundary between business assets and non business assets is often uncertain and therefore assets arising from business activity could be caught by the increases.
 - b). The government has said that they wish to encourage aspiration and also to encourage individuals to provide for their future financial security. Aspiration, and the desire to work hard is linked to the ability to save for the future and accumulate assets. If gains on such assets are to be charged at rates of up to 50% this sends a message which is counter to the government's intention.
 - c). Capital gains tax on non business assets can be avoided by merely deferring the sale of assets. It is quite likely that individuals, faced with capital gains tax rates of up to 50%, will merely delay the sale of assets until a less punitive tax applies.

d). We understand there is reasonable evidence that the total capital gains tax receipts of a government reduces as the capital gains tax rate increases as individuals merely delay or defer indefinitely the sale of assets.

e). Taxing gains made from inflation is perceived as unfair by most people.

Possible solutions

We understand that the government is keen to prevent tax avoidance that arises from the conversion of income into gains, particularly where this happens on assets held only in the short term. We believe that the government could reduce tax avoidance and achieve its objectives by introducing some or all of following measures for the taxation of capital gains on non business assets;

- a) A taper relief which reduces the rate of capital gains tax applying on assets held in the long term. Assets held for only a short period of time would be taxed at higher rates.
- b) Reintroducing indexation relief to ensure that inflationary gains are not taxed.
- c) Introducing a cap on taper relief to disallow this relief in respect of very substantial gains.

We hope the above views will be helpful in the consultation process.

Yours faithfully



Captain James Chestnutt
Chief Executive

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