

## Enterprise still under attack ?

Many Chamber of Commerce members could be affected by the Chancellor's proposals to abolish taper relief for business assets subject to capital gains tax. At the time of writing, the full details are still awaited and due to be revealed in the Spring Budget. This pending situation is most discouraging for small businesses that are being encouraged by government to improve economic growth through their enterprise.

This fundamental change in capital gains tax suddenly announced in the Pre Budget Report last November is widely believed to be a knee-jerk reaction to the enormous profits made by a few venture capitalists. The increase from a possible 10% to a flat 18% on all capital gains for individuals from April 2008 will do nothing to encourage enterprise by business owners over the long term, which is so badly needed by this country to compete with the emerging world economies. But it will risk inflating certain sectors of the housing market with the tax being reduced to this new 18% on the profit on sale of second homes and investment properties.

The four main business representative organisations in the UK (CBI, BCC, FSB, IoD) took the unprecedented action of writing a joint letter to the Chancellor to encourage a more considered approach by Government to reforming the capital gains tax regime. December's Chamber News featured an article by our Tax Finance and Legal Committee member, Geoff Hill, Senior Tax Manager at Grant Thornton. We now publish below the letter sent by this Chamber's Director General, Captain Jimmy Chestnutt, to the Chancellor, the Rt Hon. Alistair Darling MP, to support the call for a more considered approach and to warn him of the impact we believe the change in taxation will have on the enterprising efforts of local businesses and their owners.

Dear Chancellor

### **Business Asset Taper Relief abolition.**

The Southampton and Fareham Chamber of Commerce is the largest independent Chamber in the South, representing over 1,000 businesses. My Tax Finance and Legal Committee has requested I forward their views to you concerning the Pre-Budget Report proposals to end Capital Gains Tax taper relief for individuals and replace the relief with an 18% flat rate of tax.

We are strongly of the opinion that these proposals have not been fully thought through, and that the unexpected nature of this change has caused great uncertainty in our membership. It casts doubt on the extent to which the Government supports businesses and the importance they hold for our economy.

At this time of economic uncertainty, the removal of this valuable incentive to invest in successful businesses would have a negative impact on the health of the economy and the investment into business. Indeed, many businesses may cease trading or move overseas

before 5 April. The 80% increase in capital gains tax on such businesses from April is seen as a serious disincentive to invest by owners, business angels and other key players.

We are also concerned on a potential fuelling of the housing market. With a flat rate of tax of 18% proposed to apply as equally to housing investments as it does to shares in trading companies, there could be a rush to invest funds in second homes and let property, fuelling an already high housing market with money that the economy would otherwise benefit from as investment in local businesses.

As many investors will already have made investments that are due to be negatively impacted by the proposals, we believe that the retroactive application of the proposals is not in line with their reasonable expectations on how the taxation system would operate.

We are therefore urging you on behalf of our members and the economy of the Southampton region to suspend your decision and enter into detailed consultation on the proposals. This consultation should have the aim of reforming the capital gains tax system in a way that gives a fair time for interested parties to be consulted and takes into account the importance to the economy of investment in business.

Yours faithfully

Captain J. Chestnutt, Director General, Southampton & Fareham Chamber of Commerce.