A capital gains tax cut – but only for some

The Chancellor made a surprise decision to cut capital gains tax (CGT) in his Budget – but not for everyone.

Cast your mind back to June 2010, when George Osborne presented his first "Emergency Budget" as Chancellor. One of his tax raising actions was to introduce a two tier system of CGT. Instead of being subject to a flat rate of 18%, gains became treated as the top slice of income, with basic rate taxpayers continuing to pay 18% and higher and additional rate taxpayers subject to an increased charge of 28%. At the time the Treasury justified the move by saying "…to partly fund the increase to the personal allowance, increase fairness and reduce tax avoidance the government will reform CGT to align it more closely with income tax rates."

Coming back to this year's Spring Budget – Mr Osborne's eighth – and CGT rates have generally been *cut* by 8% from the start of 2016/17 to 10% and 20% respectively. On this occasion the Treasury says that "The government wants to ensure that companies have the opportunity to access the capital they need to grow and create jobs, and wants the next generation to be backed by a strong investment culture."

There are two exceptions to the reduction, both of which are rapidly becoming the Chancellor's bêtes noire: recipients of 'carried interest' (typically private equity or hedge fund managers) and owners of residential properties that are not their main homes (such as buy-to-let investors). These two categories will be subject to an 8% surcharge, taking their rates back to the 18% and 28% levels.

The cut in CGT rates is the second piece of good news for investors in shares, units trusts, open-ended investment companies (OEICs) and other collective share-based funds, coming as it does on top of the introduction of the £5,000 dividend allowance from 6 April 2016. The Chancellor clearly wants to encourage equity investment – at least for the time being...

The value of your investment can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance. Investing in shares should be regarded as a long-term investment and should fit in with your overall attitude to risk and financial circumstances. Tax laws can change.