

July 2020

## Capital Gains Tax Simplification Review: Scoping Document

Capital Gains Tax is charged on the chargeable gains of individuals and trusts. Chargeable gains made by companies are charged to corporation tax. Both taxes were introduced in 1965 and have a common core of rules, while having changed and diverged from each other somewhat since then.

The Chancellor of the Exchequer has requested that the Office of Tax Simplification (OTS) carry out a review of Capital Gains Tax and aspects of the taxation of chargeable gains. The review will identify, and offer advice to the Chancellor about, simplification opportunities relating to administrative and technical issues affecting individuals, partnerships, and unincorporated or single entity owner-managed companies, as well as areas where the present rules can distort behaviour or do not meet their policy intent.

The OTS has touched on aspects of Capital Gains Tax and the taxation of chargeable gains in some previous reports, but this is the first time the OTS will have looked more widely at this area.

The OTS will publish a call for evidence and may publish more than one report on its findings.

### Scope of Review

The review will consider Capital Gains Tax and the taxation of chargeable gains in relation to individuals and smaller businesses and develop recommendations for simplification including reducing distortions from both an administrative and technical standpoint.

This will include consideration of general areas such as:

- the overall scope of the tax and the various rates which can apply
- the reliefs, exemptions and allowances which can apply, and the treatment of losses
- the annual exempt amount and its interactions with other reliefs
- the position of individuals, partnerships and estates in administration
- the position of unincorporated businesses and stand-alone owner-managed trading or investment companies, including the setting up, selling or winding up of such businesses or companies
- any distortions to taxpayers' personal or business investment decisions
- interactions with other parts of the tax system such as Income Tax, Capital Allowances, Stamp Taxes and Inheritance Tax, including potentially different definitions for similar transactions/events.

It will also look at more specific areas such as administrative or technical issues relating to

- clearance and claims procedures
- chargeable gains on shares and securities, including holdings of listed shares
- the acquisition and disposal of property
- the practical operation of principal private residence relief
- consideration of the issues arising from the boundary between income tax and capital gains tax in relation to employees
- valuations, record-keeping, calculating any tax payable and making returns, including claiming losses
- the information HMRC have and can use to help them reduce administrative burdens, improve customer experience and ensure compliance.

In keeping with the focus on smaller businesses and individuals, this review will, in particular, not extend to issues specific to corporate groups, such as substantial shareholding exemption, company reorganisations or demergers.

### **Further guidance for the review**

In carrying out its review, the OTS will

- research widely among all stakeholders
- have regard to the effect of the tax and its reliefs on investment and the productive use of assets
- consider the likely implications of recommendations on the Exchequer, the tax gap and compliance
- take account of relevant international experience
- establish a Consultative Committee to provide support and challenge
- liaise with HMRC's Administrative Burdens Advisory Board
- consider the implications of devolution of tax powers and different legal systems within the UK
- be consistent with the principles for a good tax system, including fairness and efficiency
- be mindful of the effect of taxpayer trust in the operation of the tax system