

CAPITAL GAINS TAX

This recent innovation which is perhaps more important to speculators rather than investors, has raised various interesting points.

First of all I would like to say that the basic idea of taxing profits made by speculation seems to me to be entirely reasonable and I can foresee that under future Governments either Labour or Conservative there will probably be an extension of the present arrangements whereunder the six months' period is extended and perhaps eliminated altogether.

On the other hand the general feeling is that if this six months' limit is removed then there will be introduced a lower rate of tax applicable to such profits rather than to allow such profits to be aggregated with other income which is the present practice, and thereby attract tax and surtax at very penal rates. However, if we accept the principle of surtax I cannot really see the logic of charging such profits at a lower rate than other top income.

The introduction, however, of this six months' period has had some interesting effects on speculators and has had the effect of making them more like investors. Stockbrokers have already complained that the volume of their business has decreased considerably because of the effect of the six months' period. This is because speculators are now much more inclined to retain a good share for at least six months rather than sell it immediately it shows a reasonable profit which has had the effect of making them more into investors than speculators, especially when at the end of the six months period although the shares may still be standing at a considerable profit over what they had paid for them, they had held the shares long enough to appreciate their prospects as a long term investment and in many cases put them on their permanent portfolio.

The more striking reaction, however, is that it has encouraged speculators to be more willing to cut a loss than previously. They have been no doubt influenced by the fact that if they sell shares at a loss

Capital Gains Tax (contd.)

within six months then such loss can be set against tax payable on any profits. If, however, they allow the shareholding to continue after six months in the hope that the share price "must recover some time", then if they do finally accept the fact that the share is never going to be any good for long term investment then the loss then taken does not have any tax setoff.

17th August, 1964.