**Capital Gains Tax Issues**

There has been comment recently that the 50% discount on capital gains made on assets held for more than one year is too generous. Whilst there is probably room for reform, we must not lose track of how the value of money changes over time and that a 2015 dollar does not buy as much as a 1985 dollar, if fact it only buys about one third. There needs to be a fair, simple method to recognise this in the taxation of capital gains.

Additionally capital gains tax requirements impose a daunting record keeping obligation. Capital gains tax has been with us since 1985 (30 years). Whereas for normal income tax purposes we only need to keep records for 5 years, for capital gains tax calculation purposes, we need to keep records going back over 30 years. What will the record keeping load be in 50 or 100 years?

When capital gains tax was first introduced in 1985, this time changing of purchasing power was recognised by a method system called indexation. At the time of disposal, the acquisition cost was indexed up by a factor equal to the CPI at time of disposal divided by the CPI at time of purchase and the taxable amount was equal to the difference between the Disposal Consideration and the Indexed Cost Base. This system was fair but involved complicated calculations. Following the Ralph review in 1999, indexation was ceased for new assets and frozen for existing assets. Instead a simplified method of a 50% discount for assets held more than one year was introduced. This significantly simplified the calculation process.

This 50% discount for assets held for more than one year is generous for assets held for one or two years (indexation would have given a discount of about 6%), but is unfair for assets which have been held for significantly longer periods (say 20 years +).

The following is suggested as a fairer method:

Assets held:

* 1 to 15 years 25% discount
* 16 to 30 years 60% discount
* Over 30 years 100% discount

This would give a simple fair system and would limit the length of time asset records would need to be held.