

SHAKE UP OF ENTREPRENEURS RELIEF AND ADDITIONAL £10MM LIFETIME LIMIT FOR INVESTORS

In a bid to encourage investment in start-ups and entrepreneurs, this budget removes some barriers to the use of Entrepreneurs' Relief ("ER") making it easier for companies to pass on companies and farms to family members and is creating a £10m Lifetime Limit for long-term investors.

ADDITIONAL £10M LIFETIME LIMIT FOR INVESTORS

In a surprise move, Entrepreneurs' relief will be extended to 'long term' investors in unlisted trading companies. This will provide a 10% rate of CGT for gains on newly issued shares in unlisted companies, purchased on or after 17 March 2016, provided they are held for a minimum of three years from 6 April 2016 and subject to a separate lifetime limit of £10m of gains. Currently, the 10% rate is only available to taxpayers who have held at least a 5% holding, for 12 months or more, in an unquoted trading company of which they are either an employee or director.

On the face of it, this seems a generous move but, let's not forget that the Enterprise Investment Scheme ("EIS") allows for a tax free exit on short-term business investments, so advice should always be sought on the best method of investment for you.

SHAKE-UP OF ENTREPRENEURS RELIEF

The government also announced a number of backdated measures to change the Capital Gains Tax ("CGT") treatment through an extension of Entrepreneurs' Relief on associated disposals and goodwill on incorporation. This U-turn on the government's earlier rigid view on potential abuse of ER is expected to make it easier to pass on businesses as going concerns within a family.

The changes to disposals and goodwill will be backdated to the date on which the Finance Act 2015 became effective, applying to associated disposals on or after 18 March 2015. This first change allows ER to be claimed on an associated disposal of a privately-held asset when the accompanying disposal of business assets is to a family member. This applies to individuals who realise gains on a disposal of a private asset, used in a business carried on by their partnership or company when they retire or reduce their participation in the business.

At the same time, the government announced a change in the rules to extend availability of ER on goodwill incorporation, which is backdated to 3 December 2014. This applies to individuals (including partners in a firm) who transfer their business to a close company and become or remain a participator in the acquiring company. The measure allows ER to be claimed, subject to certain conditions, on gains on the goodwill of a business when that business is transferred to a company controlled by five or fewer persons or by its directors.

