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Investor relief – what is it and how can you benefit?

At the time of the 2016 Budget, the then Chancellor, George Osborne, outlined details of a new capital gains tax relief for external investors in unlisted trading companies. The relief aims to attract new capital into unlisted companies.

Nature of the relief

The relief reduces the rate of capital gains tax applying to gains accruing where individuals who are not employees or officers of the company in which the shares are held dispose of certain qualifying shares. In order to be eligible for the reduced rate of capital gains tax, the share must meet certain conditions. These are that the share:

- must be newly issued – the person disposing of the share must have acquired it on subscription for new consideration;
- the share must be in either an unlisted trading company or in an unlisted holding company of a trading group;
- the share must have been issued on or after 17 March 2016 and have been held for a period of at least three years from April 2016 or later; and
- the shares must have been held continually for a period of three years prior to disposal.

Lower capital gains tax

Like entrepreneurs' relief, gains that qualify for the new investors' relief will be taxed at a rate of 10%, subject to a lifetime allowance of £10 million. This lifetime allowance is in addition to that available for entrepreneurs' relief purposes.

Example

On 28 March 2016, Billy invests £200,000 subscribing for newly issued shares in an unlisted trading company. He holds the shares for almost four years, disposing of them on 10 March 2020 for £500,000. He claims investors' relief on the gain.

Billy is a higher rate taxpayer. He has already utilised his annual exempt amount for 2019/20.

The conditions for investor relief are met. The gain of £300,000 (£500,000 - £200,000) is taxed at the rate applicable to investors' relief of 10%, generating a capital gains tax bill of £30,000.

Assuming the higher rate of capital gains tax for 2019/20 remains at the 2016/17 level of 20%, the availability of the relief saves Billy £30,000, as without the relief he would have paid capital gains tax of £60,000 (£300,000 @ 20%) on the gain.

Billy has used up £300,000 of his lifetime limit, leaving £9.7 million available for relief on future qualifying gains.

Beware anti-avoidance

Anti-avoidance provisions apply to ensure individuals subscribe for the shares for genuine commercial reasons rather than to avoid tax.