Oury Clark Quick Guides:



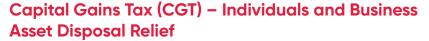
Capital Gains Tax

Business Asset Disposal Relief

(Previously Entrepreneur's Relief)



Business Asset Disposal Relief means you will pay Capital Gains Tax at the rate of 10% on gains on qualifying assets.



CGT is a tax on chargeable gains made by individuals, trusts or personal representatives.

Companies pay corporation tax on gains that they make. This note is mainly about individuals.

Most individuals (excluding non UK domiciled individuals claiming the remittance basis) qualify for an annual exemption.

This is an amount that can be earned tax free each year.

For the year ending 5 April 2023-24, the Annual Exemption is now £6,000 for individuals and £2,000 for most trusts. April 24-25 and subsequent tax years it will be reduced further to £3,000 for individuals and £1500 for trusts.

For Trusts the Annual Exemption is £6,150, shared equally between the number of trusts created by the same settlor (minimum £1,230).

The rate of CGT payable depends on your other income:

Band (England and Northern Ireland. Same in Wales but not Scotland)	Residential property	Other Gains
Up to Income tax basic rate (2021/22: £37,700)	18%	10%
Above Income tax basic rate	28%	20%
Trusts	28%	20%

The rates above assumes the residential property does not qualify for the main residence exemption

Business Asset Disposal Relief (Previously Entrepreneur's Relief)

Business Asset Disposal Relief (BADR) allows individuals and some trustees to claim relief on qualifying gains. It will mostly be available to



- sole traders and partners selling or gifting the whole or part of their businesses (this includes furnished holiday lettings); and
- company directors and employees holding at least 5% of the ordinary shares and voting rights in a 'qualifying company' who sell or gift all or part of their shareholding

What is the relief?

The relief effectively reduces the rate of CGT to 10% for qualifying gains up to a lifetime maximum.

From 11 March 2020, this lifetime maximum is the first £1 million of qualifying gains.

Previous ER limits were:

- the first £1 million from 6 April 2008 to 5 April 2010
- the first £2 million from 6 April 2010 to 22 June 2010
- the first £5 million from 23 June 2010 to 5 April 2011
- the first £10 million from 6 April 2011 to 10 March 2020.

Relief to be claimed:

A claim must be made for the relief within 22 months from the end of the tax year in which the disposal occurred.

Couples may claim as long as they individually satisfy the eligibility criteria.

Eligibility

If you are disposing of all or part of your business

To qualify for relief, for at least 2 years up to the date you sell your business:

- you must be a sole trader or business partner; and
- you must have owned the business for at least 2 years

The same conditions apply if you are closing your business. In this case you must also dispose of your business assets within 3 years of ceasing to trade

to qualify for relief.

If you are selling shares or securities

To qualify, for at least 2 years up to the date you sell your shares:

- you must be an employee or "office holder" of the company (or one in the same group); and
- the company's main activities must be trading (not non-trading activities like investment) or the company must be the holding company of a trading group

If your shares are acquired by exercising an Enterprise Management Incentive (EMI) option

You must have:

- bought the shares after 5 April 2013; and
- been given the option to buy them at least 2 years before selling them

If the shares are not from an EMI

For at least 2 years before you sell your shares, the business must be your 'personal company'.

"Personal company" means that you have at least 5% of both the:

- shares; and
- voting rights

You must also be entitled to at least 5% of either:

- the profits available for distribution and assets on winding up the company;
 or
- disposal proceeds if the company is sold

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Disclaimer: This note does not contain a full statement of the law and it does not constitute legal advice. Please contact us if you have any questions about the information set out above.

Other share transactions

A BADR claim may still be made if the number of shares you hold falls below 5% because the company has issued more shares.

- You will need to choose or 'elect' to be treated as if you had sold and reacquired your shares immediately before the new shares were issued. This will create a gain on which you can claim BADR.
- You can also choose or 'elect' to postpone paying tax on that gain until you come to sell your shares.

If the company stops being a trading company, you can still qualify for relief if you sell your shares within 3 years.

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