

Investors' Relief



OVERVIEW

Investors' Relief is a new and very valuable capital gains tax relief available to external investors in unlisted trading companies or holding companies of a trading group. The relief applies to newly issued ordinary shares from 17 March 2016 and the investment must be held for at least three years from 6 April 2016, so will be available for disposals from 2019/20.

The relief operates by applying a capital gains tax rate of 10% on gains up to a lifetime limit of £10 million.

Without this relief, gains would be likely to be taxed at 20%.

What is Investors' Relief?

Investors' Relief is a valuable capital gains tax ('CGT') relief which reduces the rate of CGT to 10% on eligible gains. It is available to individuals and trustees (depending on the nature of the trust).

The rules apply to investors who are neither employees nor officers of the company (unlike Entrepreneurs' Relief) and on shares which were fully paid and subscribed for in cash on or after 17 March 2016 and held continuously for three years, being disposed of on or after 6 April 2019. There is no minimum or maximum percentage holding of the company's shares nor is there a minimum or maximum investment amount.

There is a lifetime allowance of £10 million of gains which is in addition to the £10 million threshold which that individual may also have in respect of separate gains subject to Entrepreneurs' Relief.

The reduced 10% rate compares with a standard CGT rate of 20% on gains, resulting in a potential tax saving of £1 million based on gains up to the lifetime limit.

What are the Conditions?

The company must be a trading company or the holding company of a trading group throughout the shareholding period. There are no specific excluded activities (unlike the Enterprise Investment Scheme (EIS) and the Seed Enterprise Investment Scheme (SEIS)).

Relief is available for newly subscribed, fully paid ordinary shares issued for genuine commercial purposes in return for cash consideration.

It will not apply to investors who are officers, directors or employees of the company or a connected company, or are connected with such individuals.

At the date the shares are issued, none of the shares in the company can be listed on a recognised stock exchange (though AIM listed shares will qualify for the relief).

What is the amount of the Relief?

There is a lifetime limit of £10 million on gains qualifying for Investors' Relief.

Recent changes:

- Joint shareholders will qualify for the relief.
- Certain trustees will qualify for the relief. The lifetime limit will apply to the beneficiaries of the trust, not the trustees.

- Certain officers, directors and employees can benefit from the relief which is a change aimed at “business angels”. Broadly, it will be available to unremunerated individuals.

How is the Relief claimed?

Investors’ Relief is not automatic, and must be claimed in the tax return for the tax year in which the disposal is made. The time limit for making the claim is 12 months after 31 January following the end of the tax year in which the disposal is made.

Our View

The Relief provides tax incentives for investors outside the current investor focused schemes which are heavily restricted. Current schemes include EIS and SEIS which are more generous reliefs, but are generally available for small investments and small companies only, compared to Investors’ Relief which is available on shares in any unlisted trading company. Broadly, EIS and SEIS benefit from an income tax reduction at 30% and 50% respectively of the investment made, with Investors’ Relief providing no income tax saving. EIS and SEIS reliefs also offer a complete exemption from capital gains tax and rollover relief on previous gains as compared to the 10% rate for Investors’ Relief with no rollover opportunities. The maximum investments in a tax year, however, are £1m and £100k respectively, compared to no limit for Investors’ Relief. See our ‘Enterprise investment Scheme & Seed Enterprise Investment Scheme’ Business Tax Guide for more information.

When considered alongside Entrepreneurs’ Relief, there appears to be a gap created between the two reliefs. Where an individual is an officer, director, or employee of the company who owns less than 5% of the shares, a disposal would qualify for neither Entrepreneurs’ Relief nor Investors’ Relief. In such circumstances, if possible, the use of Enterprise Management Incentive arrangements should be considered.

How can Rawlinson & Hunter help?

Unlike other ‘reliefs’, Investors’ Relief is not just a deferral of tax but a permanent reduction in tax, and a claim should be considered on all business disposals even where other reliefs are available. We have a great deal of experience in advising investors which claims would be the most beneficial.

If you are interested in further information in this regard, please contact the Rawlinson & Hunter partner who normally acts for you. Where you are not one of our regular clients, please contact Craig Davies or Andrew Shilling, who would be delighted to discuss this with you in more detail.

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