

INVESTORS' RELIEF

Introduction

- Investors' relief provides capital gains tax relief for external investors in unlisted trading companies.
- Qualifying gains under the relief are taxed at a reduced capital gains tax rate of 10%, this compares to the standard rate of capital gains tax for higher rate taxpayers of 20%.
- A maximum lifetime cap of £10,000,000 of gains can benefit from the relief.
- The company that issues the shares must be either a trading company or the holding company of a trading group throughout the shareholding period. 'Trading company' and 'trading group' have the same meanings as for Entrepreneurs' Relief.

Further details on what investments qualify for the relief and the interaction with other capital gains tax reliefs is set out below.

Qualification requirements

The relief only applies to ordinary shareholdings in unlisted trading companies. A number of conditions must be met, including the following:

- The shares must be new shares issued to an investor on or after 17 March 2016;
- The shares have been held solely by the shareholder for a period of at least 3 years. Where the shares were issued prior to 6 April 2016, the qualifying period is three years plus the period beginning with the date of issue and ending on 5 April 2016;
- The shareholder must not be an officer or employee of the company at any time during the period of holding the shares.

Interaction with Entrepreneurs' Relief

Entrepreneurs' relief also allows for certain gains by individuals to be taxed at a lower rate of 10% to Capital Gain Tax.

As the conditions for Entrepreneurs Relief require an individual to have been an officer or employee of the company during the holding period it cannot be the case that both Investors' and Entrepreneurs' relief will apply to the same disposal.

Interaction with EIS /SEIS

Gains made on qualifying shares subscribed for under EIS or SEIS schemes are exempt from capital gains tax on disposal and the treatment of investments made under the EIS or SEIS rules is not affected by the introduction of Investors' relief..

Anti-avoidance

Shares which might otherwise qualify for Investors' Relief will be excluded from relief if the investor receives any value from the company, other than receipts of insignificant value, at any time in the period of restriction.

The period of restriction starts one year before the shares are issued and ends on the third anniversary of the issue date.

These provisions mirror closely the 'receipt of value' provisions that apply for both SEIS and EIS.

These rules are relaxed where the investor has provided replacement value for any value withdrawn, although this is subject to stringent conditions.

As with all anti-avoidance provisions, these rules are complex and great care should be taken.

Investors' relief and reorganisations

It is common that where there is a group reorganisation an individual will receive shares in a different company to the company originally invested in. Provided the shares are issued for no new consideration then the new shares will stand in the shoes of the old shares for the purpose of this relief.

That is to say that the holding period will include the holding period of both the old and new shares for the purposes of the three year requirement.

INVESTORS' - RELIEF

Conclusion

In our opinion this is a very useful relief for investors in large unlisted companies that do not qualify for relief under the EIS rules. It is clear that the relief is designed to provide a lower Capital Gains Tax rate for those passive investors who can no longer qualify for EIS relief following the tightening of those rules with effect from November 2015.

As a consequence of the above the rules for Investors' Relief are more complex than Entrepreneurs' Relief and contain some provisions similar to those found with EIS. Great care will be required to ensure that relief is available.