

INVESTORS' RELIEF

Investors' relief can provide capital gains tax (CGT) relief for investors disposing of shares in unlisted trading companies – it is effectively a gateway for third party investors to access the tax benefits available to employees and directors under business asset disposal relief (BADR).

Key features of investors' relief are as follows:

- Qualifying gains are taxed at a reduced CGT rate of 10%, in comparison with the standard rate of CGT (for higher rate taxpayers) of 20%.
- A maximum lifetime amount of £10 million of qualifying gains can benefit from the relief.

Further details on the investments that can qualify for the relief, and the interaction with other CGT reliefs, are set out below.

Qualification requirements

A number of conditions must be met for the relief to be available, with the main ones being as follows:

- The shares must be ordinary shares that were issued on or after 17 March 2016;
- The shares must have been subscribed for and fully paid up in cash;
- The disposal of the shares must take place on or after 6 April 2019;
- The shares must have been held by the shareholder for a period of at least three years prior to the disposal;
- The company that issues the shares must be either a trading company or the holding company of a trading group throughout the shareholding period; and
- Neither the shareholder, nor any persons connected to them, can have been an officer or employee of the company or a connected company at any time during the period of holding the shares (subject to some limited exceptions for unremunerated directors or individuals who subsequently become employees).

Denial of relief

Shares which might otherwise qualify for investors' relief will be excluded from relief if the investor receives

any value from the company, other than insignificant value, at any time in the period between one year before the shares are issued and the third anniversary of the issue date.

These provisions mirror closely the 'receipt of value' provisions that apply for both the Seed Enterprise Investment Scheme (SEIS) and Enterprise Investment Scheme (EIS), and can cover things such as redeeming share capital and making loans. They may not apply where the investor has provided replacement value for any value withdrawn, although this is subject to stringent conditions. In general, these rules are complex and great care should be taken when considering any arrangements which could have a bearing on them.

Investors' relief and reorganisations

Where there is a group reorganisation as a result of which an individual receives new shares in exchange for his or her original shares (and where no consideration is given other than the original shares) the new shares should 'stand in the shoes' of the original shares for the purpose of investors' relief. The holding period will therefore comprise the holding period of both the original shares and the new shares for the purposes of the three-year requirement. An election can be made to disapply these reorganisation provisions and this should be considered on a case by case basis depending on the nature of the shares or securities received as part of the reorganisation.

How can we help

Investors' relief can be very useful for investors in unlisted companies who would not be able to qualify for either BADR or for tax relief under the EIS rules.

The rules are complex, however, so please do contact us should you wish to discuss this further and explore how Moore Kingston Smith can assist you in reviewing arrangements and advising on any future investments or disposals.

Contact Us

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