



## Capital gains tax: allowing entrepreneurs' relief on deferred gains

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### Who is likely to be affected?

Individuals who defer gains eligible for capital gains tax entrepreneurs' relief (ER) into investments which qualify for the enterprise investment scheme (EIS), or who claim social investment tax relief (SITR).

### General description of the measure

ER provides for a lower rate of capital gains tax (10 per cent) to be paid when disposing of all or part of a business where certain criteria are met. The measure will allow gains which are eligible for ER, but which are instead deferred into investments which qualify for EIS or SITR, to benefit from ER when the gain is realised (for instance on the disposal of the EIS shares or the SITR investment), subject to the normal conditions for ER applicable at the time of the original disposal.

### Policy objective

This measure is likely to encourage more investment in businesses via EIS and SITR by allowing potential investors to benefit both from the deferral of gains which are reinvested under EIS or SITR and from ER on those same gains. It thereby supports the growth of social enterprises, start-up companies and small and medium sized businesses carried on by companies.

### Background to the measure

This measure was announced at Autumn Statement 2014.

## Detailed proposal

### Operative date

This measure will have effect for disposals of assets which give rise to gains potentially eligible for ER on or after 3 December 2014.

### Current law

Chapter 3 of Part 5, and Schedule 5B of the Taxation of Chargeable Gains Act (TCGA) 1992 contain the rules for ER.

### Proposed revisions

Legislation will be introduced in Finance Bill 2015 to amend TCGA by inserting new chapter 4 (containing sections 169T – 169V) into Part 5 in order to allow a person to claim ER on gains which have been deferred (held-over) under either EIS or the SITR rules when those gains or any part of them eventually become chargeable.

## Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	nil	nil	-5	-5	-5	-5
	These figures are set out in Table 2.1 of Autumn Statement 2014 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Autumn Statement 2014.					
<b>Economic impact</b>	The measure is not expected to have a significant economic impact.					
<b>Impact on individuals, households and families</b>	<p>The measure is not expected to impact adversely on individuals or households because it allows a relief to be claimed, at the discretion of individuals, in circumstances where it was not previously available. The information required to support a claim under this measure will be the same as would be required were a claim admissible at present.</p> <p>The measure is not expected to impact on family formation, stability or breakdown.</p>					
<b>Equalities impacts</b>	The measure is not expected to have a significant impact on those with legally protected characteristics. Those affected will broadly reflect the composition of ER claimants.					
<b>Impact on business including civil society organisations</b>	<p>This measure is expected to have a negligible impact on businesses and civil society organisations.</p> <p>The measure is expected to increase the supply of new capital to businesses carried on by limited companies and by social enterprises.</p> <p>It may increase the take-up of shares offered by companies under the EIS scheme.</p> <p>Use of the EIS scheme involves minimal administrative costs for a company. There will be a slight increase in the processing of applications which companies are already undertaking. Based on EIS National Statistics fewer than 500 companies are likely to be affected by the measure.</p> <p>This measure does not impose new types of cost.</p>					
<b>Operational impact (£m) (HMRC or other)</b>	The additional costs and savings for HMRC in implementing this change are anticipated to be negligible.					
<b>Other impacts</b>	<p><u>Small and micro business assessment:</u> small and micro businesses which are carried on by companies are most likely to benefit from this measure as it is expected to increase the availability of new capital to them from investors.</p> <p>Other impacts have been considered and none have been identified.</p>					

**Monitoring and evaluation**

The measure will be kept under review through communication with affected taxpayer groups.

**Further advice**

If you have any questions about this change, please contact Rob Clay on 03000 570649 (email: [rob.clay@hmrc.gsi.gov.uk](mailto:rob.clay@hmrc.gsi.gov.uk)).