



HM Revenue
& Customs

Capital gains tax: entrepreneurs' relief, joint ventures and partnerships

Who is likely to be affected?

Individuals who wish to benefit from entrepreneurs' relief (ER) on capital gains tax (CGT) without holding at least a 5% stake directly in a company carrying on a trade.

General description of the measure

This measure will deny ER on a disposal of shares in a company that is not a trading company in its own right.

Policy objective

The ER rules around joint ventures have been used to set up structures under which people with only a small indirect stake in the trading company can benefit from ER. This is against the policy intention, which is that individuals must have a significant stake in a genuine trading business in order to benefit from ER.

This measure ensures that those who benefit from ER have a 5% directly-held shareholding in a genuine trading company. It does not affect shareholdings in companies whose investment in a joint venture is part of their own trade.

Background to the measure

This measure was announced at Budget 2015.

Detailed proposal

Operative date

This measure will affect disposals on and after 18 March 2015.

Current law

The ER provisions are at sections 169H to 169S of the Taxation of Chargeable Gains Act 1992 (TCGA). ER reduces the rate of CGT on the disposal of assets to 10% from the standard 18% or 28%. One of the conditions for ER to be due on shares is that the shares must be in a 'trading company or the holding company of a trading group': the relevant terms are defined at section 165A of TCGA.

Proposed revisions

Legislation will be introduced in Finance Bill 2015 to amend TCGA so that for ER purposes the definitions of a 'trading company' and 'the holding company of a trading group' do not take account of activities carried on by joint venture companies which a company is invested in, or of partnerships of which a company is a member. Therefore a company would need to have a significant trade of its own in order to be considered as a trading company.

Summary of impacts

Exchequer impact (£m)	2015-16	2016-17	2017-18	2018-19	2019-20
	negligible	+45	+45	+45	+45
	<p>These figures are set out in Table 2.1 of Budget 2015 as 'Capital gains tax: contrived ownership arrangements' and have been certified by the Office for Budget Responsibility. They represent the combined Exchequer impact of 'Capital gains tax: entrepreneurs' relief, joint ventures and partnerships' and 'Capital gains tax: restricting entrepreneurs' relief on associated disposals'. More details can be found in the policy costings document published alongside Budget 2015.</p> <p>This measure supports the Exchequer in its commitment to protect revenue.</p>				
Economic impact	This measure is not expected to have any significant economic impacts.				
Impact on individuals, households and families	<p>Individuals who hold shares in a company which itself holds shares in a joint venture company may be affected if they dispose of their shares, unless the company is a trading company in its own right.</p> <p>This measure is not expected to impact on family formation, stability or breakdown.</p>				
Equalities impacts	This 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.				
Impact on business including civil society organisations	This measure will have no impact on business and civil society organisations who are undertaking normal commercial transactions; it will only impact on the businesses that are using joint venture rules for tax planning purposes.				
Operational impact (£m) (HMRC or other)	There will be a negligible operational impact on HM Revenue & Customs.				
Other impacts	Other impacts have been considered and none have been identified.				

Monitoring and evaluation

The measure will be monitored through disclosures of new avoidance schemes to circumvent the measure, and through communication with affected taxpayers and practitioners.

Further advice

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