



IFF Research

Capital Gains Tax Relief – Research on Entrepreneurs' Relief and Business Asset Rollover Relief

Prepared for HMRC
By IFF Research

February 2015

Research report 367



IFF Research

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Published by HM Revenue and Customs, July 2015

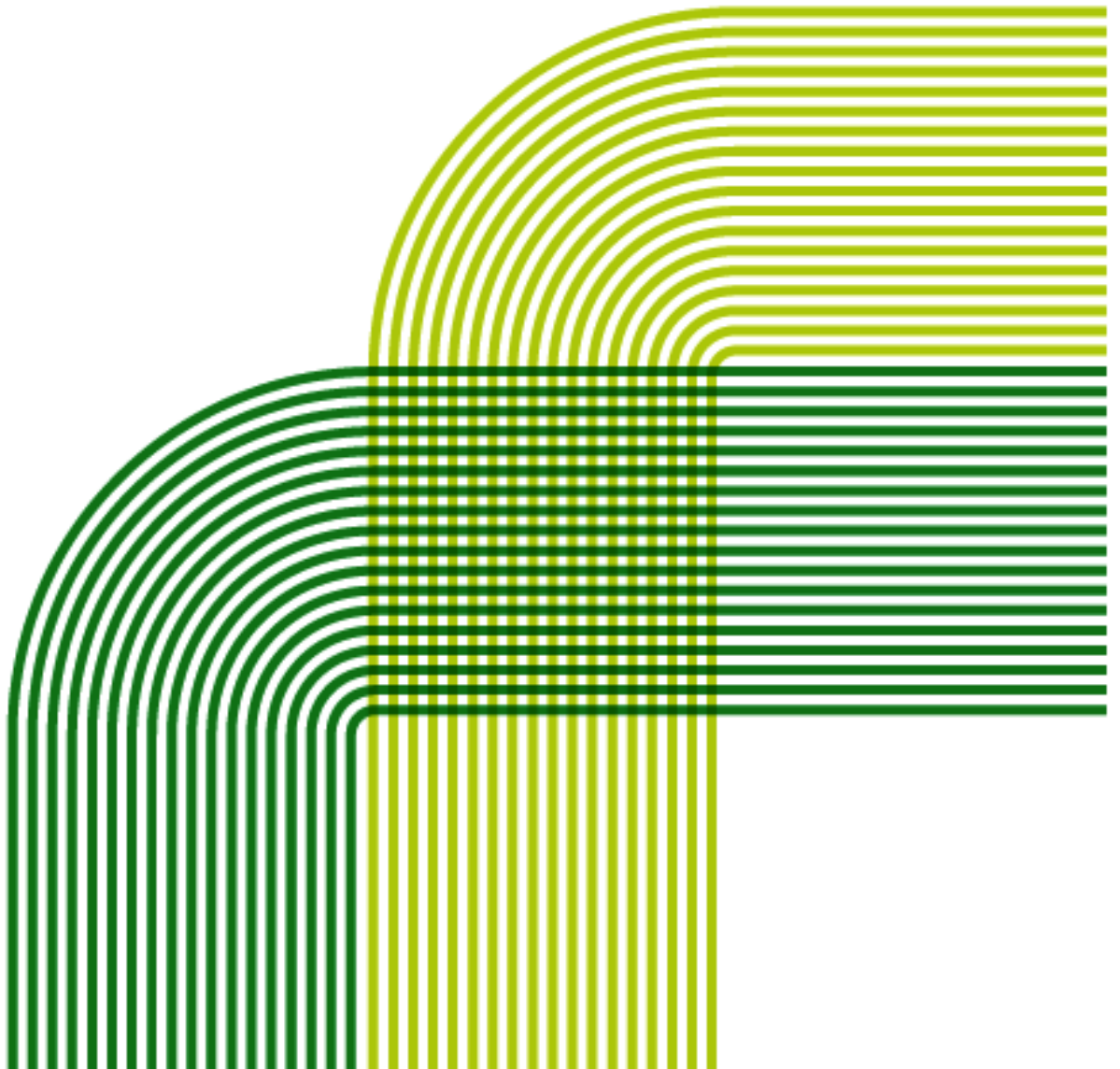
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Abbreviations and glossary

Abbreviations

BARR	Business Asset Rollover Relief
CGT	Capital Gains Tax
EIS	Enterprise Investment Schemes
ER	Entrepreneurs' Relief
HMRC	Her Majesty's Revenue and Customs

Glossary

Business event

For the purposes of this report the term 'business event' refers to the circumstances under which ER or BARR was claimed, for example an individual selling or closing their business (in the case of ER) or disposing of business assets which they then intend to replace (in the case of BARR).



Key Findings

Awareness

Claimants were relatively evenly divided between those with a broad working knowledge (i.e. those who were aware of the reliefs, but who were unaware of precise details/rates), and those with a very detailed understanding of Entrepreneurs' Relief and/or Business Asset Rollover Relief.

Role of advice

Generally claimants tended to be very reliant on third party advice. Some would not have been aware of the reliefs had their agent not recommended them. The more knowledgeable claimants also use agents – often for reassurance and confirmation that they had qualified for the appropriate relief.

How the reliefs are used and impact on behaviour

There were relatively few cases where ER or BARR appeared to have a major influence on the business behaviour and tax planning of claimants. For many claimants the reliefs did not appear to have a major influence on the business event. In a number of cases the decision regarding the business event had already been made before a claimant found out about the availability of the relief (e.g. older people looking to retire), or there was a general awareness regarding the availability of the relief, but this did not influence the timing or decision regarding the business event.

There were some cases where decision making was more complex, and the availability of the reliefs did have some impact on participants' actions. For example in a number of cases ER acted as a catalyst for selling a business, and the rate of the relief influenced decisions about the amount that someone would be willing to sell their business for.

Use of reliefs as part of a tax planning strategy

Based on the interviews conducted as part of this research, **there is little evidence that the reliefs formed part of a longer term tax planning strategy.** Only one claimant mentioned anything which could be interpreted as evidence for reliefs influencing tax planning strategy.

Impact of relaxing some of criteria

Very few claimants experienced barriers to claiming either of the reliefs due to the criteria. Claimants were generally supportive of the criteria as it is (although in some cases they were unaware of certain criteria). There was support for a lifetime limit on ER, with some feeling that the current level is sufficient (although others felt it could be raised).

The five percent shareholding rule polarised opinion. Some claimants felt there should be a limit to ensure that only those who take a risk in setting up a business are rewarded with the relief, whilst others believed this criteria should be further relaxed or removed entirely.



1 Executive Summary

Background

- 1.1 There are two different forms of Capital Gains Tax (CGT) relief available:
 - Entrepreneurs' Relief (ER) – this can reduce the CGT rate to 10%; and
 - Business Asset Rollover Relief (BARR) – this enables owners of businesses to postpone or 'rollover' the payment of Capital Gains Tax.
- 1.2 HMRC commissioned this research to gain a more detailed understanding about the impact that CGT reliefs have, specifically in relation to the behavioural drivers around business and asset planning. It also sought to assess how aware individuals are of the two reliefs, and to what extent, if at all, third-party advice informs their decision making.
- 1.3 A qualitative approach was adopted, with 35 depth interviews and one mini-group conducted. Interviews were conducted with a range of ER and BARR claimants, some of whom had used agents and some who had not, as well as a range of agents who had advised on CGT reliefs, including some from the top four¹ accountancy firms.

Awareness

- 1.4 **Claimants were relatively evenly divided between those with a broad working knowledge (i.e. those who were aware of the reliefs, but who were unaware of precise details/rates), and those with a very detailed understanding of ER and/or BARR.**
- 1.5 Agent feedback was relatively consistent with this, as it generally reported a mixture of clients with a broad working knowledge or a very detailed understanding. Other points to note from agents included:
 - Agents had wide ranging experience of clients getting the rates wrong;
 - Some agents felt that the younger business community (both newer businesses and younger people) were more likely to be aware of ER, as they are looking to build businesses with a view to selling, and ER is factored into these plans;
 - Agents generally felt their clients were less aware of BARR – although they stated that those who are aware tend to be more likely to be repeat users of the relief, and hence have better knowledge of it.

Role of advice

- 1.6 **Generally claimants tended to be very reliant on third party advice.** Some would not have been aware of the reliefs had their agent not recommended them. Even the more knowledgeable claimants still use agents – often for reassurance and confirmation that they qualified for the relief.
- 1.7 Discussions with agents from the top four firms indicated that their clients were more proactive in seeking advice (although these agents are also proactive in providing advice). In contrast, clients of smaller firms tended to be more reliant on proactive advice from their agents.

¹ Refers to 'The Big Four' - the four largest international professional services networks, offering audit, assurance, tax, consulting, advisory, actuarial, corporate finance, and legal services. These are Deloitte, PwC, Ernst & Young and KPMG.



How the reliefs are used and impact on behaviour

- 1.8 **There were relatively few cases where ER or BARR appeared to have a major influence on the business behaviour and tax planning of claimants.** In these cases ER played a crucial role in claimants' decisions to sell and their future plans.
- 1.9 For many claimants the reliefs did not appear to have a major influence on the business event. In a number of cases the decision regarding the business event had already been made before a claimant found out about the availability of the relief (e.g. older people looking to retire), or there was a general awareness regarding the availability of the relief, but this did not influence the timing or decision regarding the business event.
- 1.10 Some claimants had set up their business many years ago and this meant the reliefs had had no influence over business structuring, as they were not available at the time to influence how the business was structured. In these cases claimants had not considered trying to re-structure their business in order to become eligible for the reliefs (more commonly, participants just found out that they were eligible when looking to sell their business).
- 1.11 **That said, there were clearly some cases in which decision making was more complex, and where the availability of the reliefs did have some impact on business decisions.** In a number of cases ER acted as a catalyst for selling a business, and the rate of the relief influenced decisions about the amount that someone would be willing to sell their business for. Feedback from agents suggested many of their clients fell into this category.

Use of reliefs as part of a tax planning strategy

- 1.12 Based on the interviews conducted as part of this research, there is little evidence that the reliefs formed part of a longer term tax planning strategy. Only one claimant mentioned anything which could be interpreted as evidence for reliefs influencing tax planning strategy.
- 1.13 Specifically when this participant discussed the possible sale with their accountant the accountant suggested that two family members that worked for the company should go 'on the book's'. This involved transferring shares and making them official company employees. The claimant interviewed stated that they had always planned to sell their business, and that the availability of ER had no influence on their final decision to sell, however it had influenced behaviour in advance of the sale.

Impact of relaxing some of criteria

- 1.14 **Very few claimants experienced barriers to claiming either of the reliefs due to the criteria.** Claimants were generally supportive of the criteria as it is (although in some cases they were unaware of certain criteria). There was generally support for a lifetime limit on ER², with some feeling that the current level is sufficient, and some suggesting it could possibly be raised further.
- 1.15 Views on the five percent shareholding were more mixed. Some claimants felt there should be a limit to ensure that only those who take a risk in setting up a business are rewarded with CGT reliefs. Others believed the criteria should be further relaxed or removed entirely. This was largely due to concerns about the dilution of shares, or the fact that an investment below this threshold, but made in a large company, could still be worth a significant sum of money and represent a significant risk (therefore should be eligible for the relief).

² There is a maximum lifetime limit of Entrepreneurs' Relief that can be claimed (up to £10 million lifetime gains).



- 1.16 Agents shared broadly similar opinions to the claimants. Most felt that the lifetime limit of £10 million was either appropriate or generous, and that this had little impact on clients' business behaviour. However, there were mixed views regarding the five percent minimum shareholding. Some felt that it is appropriate given the types of business that the reliefs aim to help (such as small to medium sized enterprises who are often family-owned), but others felt that it is an arbitrary threshold and should be removed.
- 1.17 Some agents stated that it was difficult to explain to clients that in order to qualify for ER , the sale of the business had to be in respect to a whole or distinct part of their business. Agents stated that this element of the ER criteria could benefit from greater clarity.
- 1.18 Other agents also noted that clients are often unaware of the requirement to be an 'officer or employee' of the company, which can cause difficulties when they come to claim as they may not have structured their company in a way that makes them eligible for the relief.



2 Introduction

Background

- 2.1 Capital Gains Tax (CGT) is a tax on a profit when an individual sells or gives away something (an 'asset') that has increased in value. This can include individual gains made when selling, giving away or exchanging business assets such as land, buildings, a franchise, fixtures/fittings and the goodwill of the business. Where people own their own business, or are a partner in a business, they usually report capital gains and losses on a Self-Assessment tax return.
- 2.2 It should be noted that if a business is a limited company, any profits on assets disposed of form part of the total profits of the company on which it pays Corporation Tax (therefore Capital Gains Tax is usually referred to in the context of individuals).
- 2.3 In 2014, the current rates of Capital Gains Tax were;
 - 18% and 28% for individuals (tapered depending on the personal income of the person); and
 - 28% for trustees or personal representatives of someone who has died.
- 2.4 However, there are two different forms of Capital Gains Tax relief:
 - Entrepreneurs' Relief (ER) – this can reduce the CGT rate to 10%; and
 - Business Asset Rollover Relief (BARR) – this enables owners of businesses to postpone or 'rollover' the payment of Capital Gains Tax.

Aims and Objectives

- 2.5 HMRC commissioned this research to gain a more detailed understating about the impact that CGT reliefs have, specifically in relation to the behavioural drivers around business and asset planning – particularly as there was limited existing evidence as to what drivers behaviour up until early 2014.
- 2.6 HMRC also sought to understand how aware individuals were of the two reliefs, and to what extent, if at all, third-party advice informed their decision making. A programme of qualitative research was therefore commissioned by HMRC to gain further insight into these factors.
- 2.7 While the primary aim of the research was to develop the evidence base around the impact of ER and BARR upon individuals, the programme of research also explored in detail:
 - Knowledge and awareness of the reliefs;
 - Use of the reliefs – and reasons why/why not;
 - Impact of the reliefs on behaviour; and
 - Third party advice.
- 2.8 Feedback around these measures is intended to provide HMRC with a better understanding of the extent to which:
 - The reliefs are used as part of a longer term tax planning strategy; and



- Relaxing some of the criteria around the reliefs (such as the minimum share holdings and the lifetime limit on ER) would affect claimants.

Methodology

- 2.9 A qualitative approach was adopted, with 35 depth interviews, and one mini-group conducted.
- 2.10 Interviews were conducted with a range of ER and BARR claimants, some of whom had used agents and some who had not, as well as a range of agents who had advised on CGT reliefs, including some from the top four accountancy firms.
- 2.11 The mini-group was conducted with three ER claimants.
- 2.12 The interviews were primarily conducted face-to-face, although five were conducted over the telephone. These interviews lasted approximately between 45 minutes to an hour, and all took place between 21st August and 16th October 2014.
- 2.13 The table below shows the breakdown of interviews achieved.

Table 2.1: Achieved sample¹

Audience	Total number of interviews	Used Agents	Not Used Agents
ER Claimants	17	13	4
BARR Claimants	7	6	1
Agents 'Top'	4		N/A
Agents Other Firms	7		N/A
TOTAL	35	19	5

Interpretation of findings

- 2.14 This report is based on qualitative research, and the findings show the spread of opinions among research participants. The nature of qualitative research means there can often be a wide range of differing views.
- 2.15 It has been made clear where a general consensus among participants was found – along with any caveats that should be taken into account. Similarly, it has been indicated where any other findings should be interpreted with contextual caveats in mind.
- 2.16 Individuals were purposively sampled to try to get a spread of views, and they are not intended to be a fully representative cross-section of claimants.

¹ Agent 'Top' refers to 'The Big Four' - the four largest international professional services networks, offering audit, assurance, tax, consulting, advisory, actuarial, corporate finance, and legal services. These are Deloitte, PwC, Ernst & Young and KPMG. Agents 'Other firms' are any other agents.



3 Knowledge of Capital Gains Tax and the reliefs

Awareness of Capital Gains Tax

- 3.1 Both ER and BARR claimants were asked about their general level of awareness of Capital Gains Tax. Claimants' levels of knowledge and awareness fell into three clear categories.

Little awareness or knowledge

- 3.2 Some claimants had little awareness and knowledge of Capital Gains Tax. Typically these claimants stated that they had only really engaged with CGT on a 'need to know basis', and often this was only on a single occasion (e.g. claiming a relief when retiring). These claimants were usually dependent on agents for CGT purposes and advice.

"It was only when I felt it [CGT] was going to apply that I looked at it in more detail"

ER Claimant

Broad understanding but not aware of details

- 3.3 More commonly, claimants had a broad understanding of CGT but lacked awareness of its details. Claimants typically felt that they understood the basics of what CGT is and how it works (e.g. that it is a tax that is paid on individual gains when selling or giving away certain business assets), however most were either unsure of, or wrong about, the exact rate of the tax.
- 3.4 This group felt they had a similar awareness of CGT compared to other taxes they may be liable for, and they generally used agents to provide full details and advice as required.

"I have a broad understanding that you have your allowances at this and that percentage, but I am no expert"

ER Claimant

Detailed understanding

- 3.5 Some claimants had a detailed understanding of CGT, as they stated that they liked to keep on top of the details of the taxes they are liable for. Some claimants, for example, liked to receive regular tax updates from their agents or did their own research on tax issues. All of these claimants were aware of the rate of CGT, although it should be noted that some of these claimants had an accountancy or financial advice background.

Agents' views

- 3.6 Agents felt that their clients' awareness of CGT varied, with levels of knowledge being dependent on the individual client (rather than on the size of their business or the sector it is in). That said, a few agents commented that larger companies tended to be more informed of the details of GCT, mostly because they received regular advice.
- 3.7 Agents stated that the majority of their clients had a general awareness of CGT reliefs, but lacked knowledge of specific details. Clients often get the rates wrong and rely on agents for advice and details. This is in line with the findings from the claimant interviews.



"They all know the income tax rate but CGT would depend on the client. If you are more involved in share sales or do the stock market you are going to be more aware of CGT, but most of our owner-managed businesses are generally just focussed on their business and CGT only generally comes up when they think about selling, or moving shares or gifting to their children; that is when you start having the conversation about rates"

Agent (other firms)

- 3.8 Some agents stated that some clients are surprised that they are liable for Capital Gains Tax and have very little awareness of the tax.

Views on Capital Gains Tax Policy

- 3.9 Both claimants and agents were asked their views on Capital Gains Tax policy, both in terms of the tax itself and the reliefs available.
- 3.10 Overall claimants felt quite positively about the CGT reliefs available, and believed that the reliefs encourage people to set up businesses, which then create employment and help the economy. Specifically ER was believed to reward risk and encourage growth, and BARR was felt to encourage reinvestment into businesses.

"It is looking to reward people who are taking a risk with a better percentage tax rate and also looking after people who have had a loss. It encourages people to go for it. By doing that, you are providing jobs, it is good for the economy if you are buying things from suppliers"

ER Claimant

- 3.11 Agents shared this view, stating that ER acts as a good incentive for entrepreneurship and that BARR is useful in keeping money within a business to help generate more business.

"I personally like BARR – it is a useful mechanism to ensure capital doesn't leak from a business while it is changing and developing. It stops businesses falling over from lack of funds to reinvest"

Agent (other firms)

- 3.12 Although views on CGT policy were generally positive, some claimants did offer some critical views. However, it is important to note that these were only mentioned by a few of the participants involved in the research.
- 3.13 In relation to GCT itself, some claimants believed that the 28% rate of tax is too high for those who do not qualify for the reliefs. One claimant criticised having any kind of tax on gains, as they felt it may stifle enterprise and discourage people from disposing of business assets for fear of having to pay tax on them.
- 3.14 Other criticisms included:
- There can be too much short-termism in terms of tax policy, which can make business planning difficult;
 - The reliefs fail to help people who are having to pay money up-front when starting a business (as the relief comes at the point they are selling their business or asset, rather than when they are having to invest and take on risk); and



- The reliefs are not always promoted as well as they could be and it is not always obvious to small business that CGT reliefs are available, or that you can plan in certain ways to be eligible for them.

“Planning your business with those matters in mind is not that straightforward and unless you have knowledge of it before, you don't think about those things”

ER Claimant

- 3.15 In general agents were also positive about the reliefs, however a small number of criticisms were made, including that the qualifying criteria can be quite complex and clients do not always understand these. There was also concern over the uncertainty surrounding reliefs, which can make clients nervous about how long the reliefs will be available for.

“There's definitely a nervousness out there that if there was a change in government, that anything could potentially happen to ER in terms of changing rates or withdrawing it altogether.”

Agent (top four)

- 3.16 One improvement to policy suggested by a claimant was that they would like to see BARR extended to include various other asset classes.
- 3.17 Both claimants and agents were asked about Taper relief² and how ER compares to it. Claimants were less knowledgeable on this subject, however a small number were disappointed at the removal of Taper relief as they now had to pay full CGT on other assets which they had not in the past.
- 3.18 Some agents agreed with this view, stating that ER is less generous and also that Taper relief encouraged a longer term view of investments (as it had a longer time-frame). However, others felt ER is an improvement on Taper relief as it is much more straightforward, enabling clients to understand it and reducing the amount of advice required from agents compared to Taper relief.

“I think they're a lot more straightforward these days and Taper Relief was brilliant for accountants because virtually no one else understood them”

Agent (top four)

Awareness and knowledge of Entrepreneurs' Relief (ER)

- 3.19 All ER claimants were asked about their knowledge and understanding of ER, both in terms of their awareness of the availability of the relief and in terms of the criteria to claim. Again, claimants fell into three categories; little awareness or knowledge, broad understanding but not aware of the detail and detailed understanding of ER.

Little awareness or knowledge

- 3.20 These ER claimants had little awareness or knowledge of ER, were unsure of the prerequisites or rate, and were not aware of the lifetime limit. They may have heard of the relief previously, but had little knowledge that it may apply to them until advised.

“I had a vague memory of when in general life in news reports when the Entrepreneurs' Allowance was introduced. Now that did lodge somewhere in

² Taper Relief was introduced in 1998 to replace indexation and to encourage long-term investment. Taper Relief was extended throughout its ten years until it was replaced by Entrepreneurs' Relief in 2008. It provided a reduction on the amount of Capital Gains Tax payable and was applicable to the disposal of assets, particularly those with qualifying business use.



the back of my mind, but again I'm going to be honest with you, I don't think it really registered as being applicable to me. I didn't really get the message at that time."

ER Claimant

Broad understanding but not aware of details

- 3.21 Some ER claimants had a broad understanding of the relief but were not aware of the details. These claimants were likely to know the purpose of the relief and some qualifying information, but would need to look up the details, or get advice on the specifics.

"If it's your own business and you retire, when you sell the company you only pay 10%"

ER Claimant

Detailed understanding

- 3.22 Some ER claimants had a detailed understanding of ER. They were aware of the purpose of the scheme, and how it works. This included knowledge of the criteria and limitations, for example the lifetime limit and 5% shareholding requirement.

"I already knew the rate was 10% so it wasn't a surprise ... I knew from some years back that I had a stake that was great enough to qualify from the relief."

ER Claimant

Agents' views

- 3.23 Similarly to knowledge of Capital Gains Tax itself, agents indicated that level of awareness of ER varied depending on the client. However, certain groups of clients were identified as being more aware than others. In terms of the groups who differ in awareness, agents felt this was driven more by circumstance than particular business type. Agents fed back that:

- High net worth individuals tend to have lower awareness of the detail, as they tend to leave the specifics to agents;
- Management teams who are buying out a business have higher awareness of the detail;
- The younger business community (both newer businesses and younger people) tend to be more aware of the details of ER, as they are more likely to be thinking about how to build and sell their relatively new businesses, rather than finding out about ER when considering retirement; and
- The more hands-on and involved a client is with a business, the more likely they are to know the detail.

"Knowledge is patchy, I would say, once you get into any of the real detail."

Agent (top four)

- 3.24 BARR claimants were also asked about their awareness of ER, and their knowledge and awareness varied largely. Some BARR claimants had not heard of ER at all, some were generally aware but felt it was not relevant to them, while others felt it may be something they may claim in future.

When and how claimants became aware of ER

- 3.25 The research investigated when and how claimants became aware of each relief, in terms of timing, triggers and sources of information.



Timing

- 3.26 In terms of timing, ER claimants most commonly looked into the details of the relief whilst in the process of planning to close or sell their business. Often they mentioned that they went to their agent or looked up information to explore options, and that this was how they had heard about ER.
- 3.27 Other, more knowledgeable, ER claimants stated that they had had a general awareness of the relief prior to the business event in which they claimed ER. Some mentioned that they had been made aware of ER when it launched, and others stated they always knew it was an option if they were to decide to sell or close their business.
- 3.28 One claimant had specifically looked into ER before buying a business, with a view to claiming the relief in the future. However, this was the only example of such forward planning.
- 3.29 ER tended to be a one-off claim; this point was also generally stressed by agents as well.

“At the end of the day, it’s not something that people do all the time. It’s a one-off relief that makes the exit from a business more attractive”

Agent (other firms)

Triggers

- 3.30 Similarly to the timing, the most common trigger for claimants finding out about ER was deciding they wanted to close or sell their business (or shares in a business). A high number of ER claimants stated that this was the point at which they had sought advice about the relief and decided to claim.
- 3.31 In some cases claimants stated that their decision to sell the business was linked to their decision to retire, therefore retirement was a common trigger for claiming the relief.
- 3.32 Other events which claimants mentioned as factors in their decision to close or sell their business (and which therefore acted as triggers for claiming ER) included:
- Wanting to do something else (such as become an employee, rather than self-employed);
 - Passing a business onto other family members, often children;
 - Selling a business in order to reinvest in something else;
 - Closing a dormant company that they no longer used; and
 - Wishing to sell as they felt they had taken the business as far as they could and receiving a good offer for it.
- 3.33 Agents mentioned similar triggers for clients claiming ER, however one also mentioned divorce as a further possible trigger for claiming (due to having to sell a company/shares in a company as part of a divorce settlement).

Information Sources

- 3.34 Most ER claimants stated that their main information source on the relief was agents, and in particular their accountant. The relief usually came up in discussions about business decisions (e.g. possible sale of business), with ER then identified as an option.

“We used the accountants all of the time. When it came to the sale of the business we also engaged a consultant and a solicitor specifically for that one



exercise, so that they were focussed entirely on that and it certainly helped on the whole legal and financial aspect”

ER Claimant

- 3.35 Some claimants identified discussions with agents regarding their retirement as their source of information on ER, as agents had advised them that ER was the most sensible option for their plan to exit their business and retire.
- 3.36 Some claimants also mentioned sources such as the press (e.g. regularly reading the Financial Times), paying attention to the budget, through ‘word of mouth’, or just having been aware of the relief when it was launched, as alternative sources of information.

Awareness and knowledge of Business Asset Rollover Relief (BARR)

- 3.37 As with the ER claimants, all BARR claimants were asked about their knowledge and understanding of BARR, both in terms of their awareness of the availability of the relief and in terms of the specifics regarding the criteria to claim. This information was used to analyse and code claimants’ levels of awareness of the relief as either: little awareness or knowledge; broad understanding but not aware of details; or detailed understanding.

Little awareness or knowledge

- 3.38 Some BARR claimants interviewed had little awareness or knowledge of the relief, in that they were only aware of BARR because of professional advice suggesting that they could or should claim it. They had very little understanding of the relief, and the process of claiming had been handled solely by their accountant.

Broad understanding but not aware of details

- 3.39 There were four claimants who had a broad understanding of the relief but who were not aware of the details. Similarly to ER claimants with this level of knowledge, they had an understanding of how the relief worked and what applies but did not necessarily know the rate of the relief or the limitations that apply. These claimants were likely to require advice on the details of the relief.

Detailed understanding

- 3.40 The remaining claimants of BARR had a detailed understanding of the relief – they were fully aware of the rates and prerequisites for claiming and had a good understanding of how the process works. This claimant had claimed BARR on several occasions, which was why they had such a detailed knowledge, however they stated that previously they had sought advice from their accountant.

“Because we’re always buying, we’ve never had any kind of issue where we didn’t have investments coming where we could claim it”

BARR Claimant

Agents’ views

- 3.41 The agents that were interviewed generally stated that their clients tended not to be that aware of BARR, as typically their clients were more likely to claim ER (thus making BARR less relevant to them). However, they stated that for the small number of clients for whom BARR was relevant, these clients tended to be highly aware of the relief, as they were often repeat claimants (though they stated that they often do not understand the restrictions of the relief). One agent commented that because BARR has been around longer than ER, it is better understood by those who use it.



"The clients I have experienced do know about the rollover relief but not the full details of it"

Agent (other firms)

- 3.42 ER claimants were also asked if they were aware of BARR, however most had either not heard of BARR or had very little knowledge of the relief, and none had claimed the relief. There were a small number of ER claimants who mentioned that they had examined whether BARR was applicable to them, but concluded that it was not.

Timing

- 3.43 Most BARR claimants looked into the relief when considering whether to sell an asset (though in some cases this information was largely provided by their accountant).
- 3.44 Unlike ER, BARR claims tended to be more frequent, with individuals making repeat claims.

"It's existed for so long that I can't tell you when I first found out about it or who told me. I don't particularly think about claiming it; I just know it's available so I don't really worry about trading assets as I need to because it's neutral."

BARR Claimant (claimed several times, detailed understanding)

Triggers

- 3.45 The key trigger for BARR claimants was looking to sell a business asset (examples included property, land, fixed plant or machinery, good-will, hotels, shops and pharmacies). For some BARR claimants selling the asset was done with a view to growing their business and expanding ('moving up a notch').
- 3.46 In one case the sale of property was in order to downsize to a smaller property.

"The decision had been made that we needed to dispose of this building and move to new premises that would be cheaper and better and more beneficial"

BARR Claimant

Information Sources

- 3.47 The two key sources of information mentioned by BARR claimants were the HMRC website and agent or accountant advice.
- 3.48 Some also mentioned talking to similar business people and 'word of mouth'.

Information available about the reliefs

- 3.49 ER and BARR claimants felt that there is sufficient information available about Capital Gains Tax and the reliefs, both in terms of general information available, and more specific details about either relief if required.
- 3.50 Agents generally agreed with this, stating that there is sufficient information about both reliefs and that the information available is of a good quality.

"I think the Revenue have done a good job, actually, generally, on all those sorts of statutory type reliefs in making information available and accessible"

Agent (top four)



- 3.51 Other positives noted by agents included that the information available is better than it was in the past, and that help sheets and guidance booklets on the reliefs are useful as they are simple and provide good examples. Some agents also felt HMRC is quite helpful in dealing with enquiries and clearing up areas of confusion.
- 3.52 While overall both claimants and agents were positive about the availability of information, there were a few criticisms or suggestions for improvements which could be made. These included:

Claimants' views:

- Information is not easily available to those who do not go online;
- HMRC is only a source of information rather than advice or guidance; and
- Changes made in the Finance Act could have been better communicated (indeed, one claimant stated that without the advice of an agent, they would not have known anything about the changes).

Agents' views:

- There can be over-simplification of pamphlets regarding CGT – the lack of detail results in some clients getting it wrong, and agents then have to try to correct mistakes;
- HMRC toolkits could be more user-friendly – there was a recognition that they are designed for agents rather than claimants, but some believed they could be made more accessible for clients;
- Some agents mentioned that some of the forms for claiming the reliefs can be a be quite confusing for claimants; and
- One top four agent had some difficulty getting clarity on a particular issue from an HMRC tax inspector and had to go higher within HMRC to get clarity on the issue. They were concerned that smaller agents would not have the contacts to do this, so clients may miss out where they should not.

Views on HMRC website

- 3.53 One key source of information mentioned by both claimants and agents was the HMRC website, and both groups were asked specifically what they thought of it.
- 3.54 A high number of claimants viewed the website positively. They found it was clear and straightforward, with information easy to find, whilst also acknowledging that there does have to be a lot of information on the site. The website was seen as reliable and up to date, and some claimants mentioned that it has useful examples.

“The HMRC website is very good. There's stuff you can read. There are general articles available. All the accountancy firms have online stuff which you access so if needed to find out stuff, I'd find it very easily.”

ER Claimant

“Everything is on the website if you want to look - if you don't trust your accountant, you can look on there to back up or reassure you about what he has told you”

BARR Claimant



- 3.55 Although generally positive, there were a small number of criticisms of the website from claimants, including that it can be difficult to know where to look for relevant information, that you need to know the right questions to ask, that there is so much information you can get lost, and that the website does not always use plain English (there can be a lot of technical language that is difficult to understand).

“Although the site tells you what you want to know, you have to know to ask. Generally, there are gaps [in information]. The real problem is that you don't know the best questions to put. Small businesses tend not to use big accountants because they haven't got to that stage yet, so the advice that they have can be very thin”

ER Claimant

- 3.56 The views of agents on the website were more evenly split than those of claimants, with some saying they felt the HMRC website is good (readable and interactive with clear information) while felt that the website can be cumbersome and information inaccessible if you do not know what you are looking for.

- 3.57 Agents felt this was a particular issue for clients rather than themselves – they felt the website may not be easy for those outside the accountancy profession to use. Similarly, some felt that there is an overuse of technical language and ‘jargon’.

“It's not easily readable. It's not something where you can sit there and instantly grab the gist of what they are trying to say. When you go on something like AccountingWEB it's written in a language that we all understand.”

Agent (other firms)

- 3.58 Some suggestions for improvements made by claimants and agents included:

- Adding dates to pages detailing specific information so that it is possible to tell how up to date it is; and
- Adding more diagrams and bullet points to help with explanations.

Views on the name of Entrepreneurs' Relief

- 3.59 The general view on the name of Entrepreneurs' Relief was positive, with a high number of both claimants and agents feeling that the name is eye-catching and gets people's attention. It was also felt to be quite ‘media-friendly’ and interviewees felt that the name captures the spirit of the relief – encouraging people to set-up and grow a business, rewarding those that take this risk, that in turn helps to create employment and grow the economy.

- 3.60 The name was thought to resonate well with certain claimants, specifically those who define themselves as Entrepreneurs.

“It has a resonance with my type of client who think of themselves as entrepreneurs.”

Agent (other firms)

- 3.61 Some felt that the name suggests that the relief is more for smaller businesses than larger corporations.



"I think it definitely does [encourage people to start businesses] because it gives them a bigger cash out when they come to sell. It must therefore change their risk-reward."

ER Claimant

- 3.62 While both claimants and agents were positive about the name, there were some who had reservations about it. Many ER claimants interviewed did not see themselves as 'entrepreneurs', despite the relief applying to them. Some also believe that the term 'entrepreneur' is overused, and one agent pointed out that the relief does not actually cover all entrepreneurial activity, (e.g. to be eligible for ER a business has to be a trade, profession or vocation, whereas some clients may make investments which they would view as entrepreneurial activity which would not qualify). For these reasons they felt the name could be slightly misleading.

"I suppose I was an entrepreneur but I think it is a slightly over-used phrase now because of TV programmes like Dragons Den. I think of myself more as a businessman trying to make a living"

ER Claimant

"It sounds too highfalutin. Entrepreneurs you view as somebody like Richard Branson so it can't possibly apply to me. Something a bit more down to earth would probably have been more appropriate."

Agent (other firms)

- 3.63 One claimant felt that the name was misleading as the relief is actually more of a relief for investment, rather than for entrepreneurial activity, and another said the name suggests it is a tax relief for those starting up a business, where as it is more a relief for those selling one.
- 3.64 Furthermore, one claimant stated that the name suggests someone who serially sets up and grows business, but as the discussions with the ER claimants showed – this is often not the case. This claimant felt the name could put some people off claiming, and that a more 'down-to-earth' name might be better.
- 3.65 Although these claimants had some criticisms of the name, none of the participants interviewed felt that the name had an impact on them claiming the relief and almost all claimants said that the name had not influenced their interest in the relief or their initial decision to claim.
- 3.66 Most felt that the name does not really matter as people will find out if it is applicable to them, regardless of what it is called. One claimant stated that the name had actually encouraged them to claim.

Incentive or Reward

- 3.67 Claimants were asked whether they felt the relief they had claimed was an incentive to act in a certain way, or a reward for past actions. ER claimants were almost evenly split between viewing the relief as a reward or incentive, though this tended to be influenced by the age and stage of business development the claimant was at. Those at the stage of retiring were more likely to see it as a reward. BARR claimants were more likely to see the relief as an incentive to keep reinvesting.
- 3.68 Claimants in the ER mini group were similarly split with no common consensus being reached. One saw it as a reward, one stated they saw it as an incentive, and the other believed it was a bit of both.

"For me it has been more of a reward, I don't think it really incentivises future activity, but it might be different for others."



ER Claimant, mini-group

"I think it's an incentive to be entrepreneurial. It's an incentive to leave money in the business because one can then make that money work knowing that there is a fairer tax regime at the end."

ER Claimant

"I am sure it is meant as an incentive but I guess we used it as a reward for past actions."

ER Claimant



4 Role of Third Party Advice

Reliance on Agents

- 4.1 As the discussion in chapter 3 has shown, claimants were very reliant on agents in a large proportion of cases. This was the opinion of both agents and claimants themselves.

"The accountant told me when to do it and when to pay the tax and everything like that - that is what I pay the accountant for"

ER Claimant

- 4.2 There were a small number of claimants who stated that without the advice of agents they would not have known that the reliefs even existed or that they would be relevant to themselves.

- 4.3 The claimants who were more knowledgeable about Capital Gains Tax and the reliefs often stated that they still used agents – but usually as a reassurance and confirmation that they qualified for the relief.

- 4.4 In general agents felt that clients were reliant on their advice, stating that it is unlikely clients would ignore their advice if they recommended claiming a relief. Agents also tended to see their advice as fundamental to business decisions.

"Without our advice it would cost them a lot more money for a start and they would probably make the wrong decision overall"

Agent (other firms)

- 4.5 There were five claimants that took part in the research who did not use agents, with various reasons cited for this. These included:

- That claimants felt were knowledgeable enough to know the details of the relief and that they qualified for the relief without seeking advice;
- Some had experience in accountancy, and were therefore confident in their knowledge and eligibility; and
- Others viewed the process of claiming as relatively straightforward so felt there was no need to seek agent advice.

"I had always done self-assessment so I didn't see the need to [use an agent]. It is quite straightforward"

ER Claimant

Types of Advice Sought

Information

- 4.6 There were two contrasting themes that emerged from claimants regarding the type of information they sought from their agents:

- Many claimants felt they had a good grounding and reasonable awareness of the reliefs but had used agents to confirm eligibility and ensure that they fitted all of the criteria for claiming the relief; and
- Others were in more regular contact with their agents, often accountants, throughout the lifetime of their business, and had regular discussions with them about what tax options were available. These



claimants sought a significant amount of advice when it came to selling their business and claiming the relief.

- 4.7 The views of agents were consistent with the views of claimants, as they stated that some of their clients require all the details about CGT and the reliefs, while other clients only requiring the reassurance that they qualify.
- 4.8 Agents did identify a difference between ER and BARR claimants, in that ER claimants are generally less interested in the detail, they just want to ensure they meet the criteria.

“Clients want the comfort of saying they know a professional has looked at their own facts and think they qualify”

Agent (top four)

Proactivity and Timing

- 4.9 In terms of when advice was sought by claimants, the most ER claimants sought advice at the point at which they were considering selling their business, or when they had received a good offer for their business.
- 4.10 BARR claimants tended to be in more regular contact with their accountants, which meant advice was sought at a much earlier point. This was sometimes also the case with ER claimants, but it tended to be more common with those who claimed BARR.
- 4.11 There were a small number of claimants who only sought advice after the sale of their business or asset.
- 4.12 Agents stated that ER claimants often discuss tax consequences with agents when they are considering taking a particular action (e.g. selling their business), however some clients will only ask for advice when the business decision has been made, in order to discover what the tax consequences may be.
- 4.13 Agents stated that advice on CGT and the reliefs is very rarely sought at the start-up of a business; rather it tends to be sought when business decisions that are affected by CGT are made.
- 4.14 Agents were also asked how proactive their clients are when it comes to seeking advice about the reliefs. Smaller agent firms indicated that they themselves are proactive in providing guidance, where as the top four large accounting firms stated their clients are proactive in seeking the advice (although they are also pro-active in offering it).

“It is a question about keeping a continuous dialogue and certainly accountants are in a good position as you do see your clients for certain things that happen throughout the year so there are lots of times when you will be in contact with your clients.”

Agent (other firms)



5 The Qualifying Criteria

Barriers to Claiming Reliefs

5.1 All claimants were asked whether they had encountered any barriers to claiming either ER or BARR. Very few barriers were mentioned by claimants, with no BARR claimants mentioning any barriers, and only three ER claimants stating that they had encountered barriers (some barriers to claiming both reliefs were mentioned by agents – details below).

5.2 The barriers that were mentioned by the ER claimants were:

- Because of the minimum 5% shareholding limit, one claimant stated that they had to 'formalise' family members' shares, in order to ensure eligibility to claim³; and
- Having to pay Capital Gains Tax up front (following a sale) meant that the claimant had had to ensure that the sale of their business was structured in such a way that they would have enough money to pay the CGT (if this had not been the case the deal would have been based on a number of instalments).

"With his [agent] abilities he foresaw the problem of taxes at the point that we sold the business, where with the Entrepreneurs' Relief system we had to pay tax on the whole package right upfront or very shortly thereafter, whereas the earning [from selling] would come much later [due to a deal involving payments in instalments]. So we engineered it to have a much better up-front element to the deal, which meant we could afford to pay the tax, rather than any other way round."

ER claimant

5.3 This last barrier was also mentioned by one agent, who felt that the prescriptive nature of the rules on both reliefs could cause some uncertainty amongst their clients.

"When they think they qualify, they don't. I think it's a proper problem as well, because the people that this relief's designed for can't get it because of the prescriptive nature. They haven't taken expensive advice"

Agent (other firms)

5.4 Agents mentioned a few other possible barriers, although they stressed that generally their clients had not encountered barriers to claiming the reliefs. Those mentioned were:

- Where a claimant has two separate companies and sells an asset in one of these companies, but wishes to lend/re-invest the money raised in the other company, this does not qualify for BARR. The agent that raised this issue felt that these cases should in fact qualify for BARR, as they are still re-investing in a linked company;
- Difficulty in accounting for periods of non-business use in claims;
- Having appropriate historical records evidence claims; and
- One agent stated that they had sought clarification from HMRC on a particular claim, but the tax inspector had refused to advise on the issue in case they were 'blessing' tax planning. There was some frustration from the agent that this response can cause uncertainty on certain issues.

³ This was the only example of more formal tax planning found during the research. It is discussed in more detail in Chapter 6, and the details of this claimant are included as a case study in Appendix A.



Views on Criteria of ER

- 5.5 Both claimants and agents were asked their views on the various criteria required to be able to claim Entrepreneurs' Relief, and if any had affected their (or their clients') ability to claim.

Lifetime limit of £10m

- 5.6 This limit had not affected any of the claimants interviewed and claimants felt it was unlikely to affect many people at all.
- 5.7 Generally claimants felt that there should be a limit and that the limit of £10 million is either reasonable or in fact slightly generous. Most claimants felt that anyone who reached this limit did not need the 10% relief rate, and felt that the lifetime limit would not drive business behaviour.

"£10m is a hell of a lot of money. The ER is more valuable and relevant in small businesses than in large ones, because of the numbers involved. If a business is sold for £100m and they get the £10m relief, that is quite sufficient for anybody's need."

ER Claimant

- 5.8 In contrast there were a few claimants who felt that there should be no lifetime limit, as they felt it may discourage people from growing their business, or businesses, to a value beyond this limit. They felt that encouraging further growth can only be a good thing, so questioned why there should be a limit, especially, as some claimants pointed out, as companies still have to pay tax in other ways.
- 5.9 Agents shared similar views to the claimants, with the belief that the limit of £10 million was either appropriate or generous. The lifetime limit was only raised as an issue by some of the clients of one agent, however this agent stated that they did not think it had actually impacted on business behaviour.

"I suspect that the reality is that my client base, I see the relatively small proportion of people that do make more money than the ten million and therefore, you know, I suspect it's pretty much fit for purpose."

Agent (top four)

- 5.10 Much like with claimants, there were a few agents who felt the limit should be increased or abolished, as they felt it reduces the incentive for entrepreneurs to build up their business beyond the value of the £10 million lifetime limit.

"If you have someone who has built up a business and sold it for ten million, what is his incentive to build up another?"

Agent (other firms)

Minimum of 5% Shareholding

- 5.11 There were mixed views on the criteria that claimants must have a minimum of a five percent shareholding in the company.
- 5.12 Some claimants were in favour of this, or even thought it should be increased. Various reasons were given for this, including:

- Typically entrepreneurs will have a shareholding at this level or higher in their company anyway;



- That some sort of limit is required in order to ensure that those who take the risk of starting a business experience the reward;
- That having a limit prevents people from 'flipping' businesses all the time;

"Otherwise everyone would be buying and selling businesses all of the time. There should be some limitation to ensure that someone doesn't buy a business and bail out straight away... People would just be flipping [businesses]... [and] it would be a lot of paperwork especially for HMRC".

ER Claimant

- In larger companies in particular, if the minimum shareholding was reduced there is potential for people to take advantage of ER in a way that is not intended.
- 5.13 Other claimants felt differently, stating that less than five percent could still be a significant investment in a larger company, and this limit may actually deny some people the relief who really should be eligible. The issue of dilution of investment was also mentioned, with concern that entrepreneurs who start with a significant share in the business may have this reduced in percentage terms if they seek other investment, which could unfairly deny them the relief.

"Your percentage holding may seem insignificant but in terms of value could be a lot. You could work every hour that God sends in that business and why should it be limited to 5%."

ER Claimant

- 5.14 This criteria was also discussed in the mini-group with ER claimants. Initially the group felt that the five percent requirement is relatively low, however after some further discussion around the issue of share dilution they ended up concluding that perhaps this criteria should be reduced.
- 5.15 Agents also provided mixed views regarding the minimum five percent shareholding. Those in favour of this criteria stated that it is appropriate for the type of business targeted by such a relief, as it is not aimed at large companies.
- 5.16 Those against it stated that they felt it is too high for those who have made a significant contribution to large businesses and that it can mean that family businesses have to be vigilant regarding the way they structure the shares in their business (and if they are not they can sometimes miss out on the reliefs).
- 5.17 A final point made by some agents was that the criteria feels arbitrary and it would perhaps be sensible to remove it.

Disposal of the whole or a distinct part of the business (ER)

- 5.18 Most of the claimants were either unaware of this criteria or felt this was fine as a requirement. None had found it to be an issue.
- 5.19 However, there were some claimants who felt it can be quite complicated to define 'a distinct part of the business'. Two of the claimants were concerned that part sale may lead to tax avoidance, so they felt it should only apply for sale of the whole business.
- 5.20 Agents shared a similar view to this, stating that it needs more clarity as parameters can be quite subjective, and that this criterion can be difficult to explain to clients.



“There are certain uncertainties with Entrepreneurs’ Relief...there is always a fear that Entrepreneurs’ Relief isn’t going to apply. There is no really clear guidance as to the time at which ordinary retained profits in a business suddenly become an investment asset....there is uncertainty and uncertainty isn’t great for tax payers.”

Agents (other firms)

Requirement to be an ‘officer or employee’ of the company

- 5.21 As with the above criteria, claimants were either unaware of this or generally felt it was fine as a requirement.
- 5.22 Agents stated that some clients are unaware of this criteria, which causes difficulties when they come to claim as they may not have structured their company in a way that makes them eligible for the relief. This led to some agents suggesting that the criteria should be removed.

Conditions must be met throughout the 12 month period leading up to date of disposal

- 5.23 The fact that these conditions must be met throughout the 12 month period leading up to date of disposal was felt to be reasonable by most claimants. That said, there was one claimant who felt this was unreasonable as somebody could have made a significant impact upon a business over a shorter period of time.



6 Impact on Behaviour

Understanding the influence of the reliefs on business behaviour

- 6.1 This chapter details analysis of the influence of both Entrepreneurs' Relief and Business Asset Rollover Relief on the business behaviour of claimants. On the face of the data it initially appeared that there had been little direct impact for many claimants, however further analysis of claimant responses was conducted by grouping responses based on:
- Circumstances surrounding the claim;
 - The relationship between the relief and business/asset planning;
 - The role of the reliefs in wider/longer-term tax planning; and
 - What they would have done differently if relief had not been available.
- 6.2 This analysis was used as the basis for a derived coding of whether the relief had had a low, medium or high influence on each claimant's business behaviour, taking into consideration both the impact that it had had, and the influence that they said it may have in future.
- 6.3 Similar coding was also conducted on the agent interviews, with a view to analysing their views of the influence of the reliefs on their clients' behaviour. It should be noted that this reflects the view of agents on their clients generally, rather than analysis by specific claimants.
- 6.4 It is important to note that this is qualitative analysis – results show the spread of opinions and give an indication of the relative weight of them rather than a pure quantitative measurement. They are not intended to be fully representative of all ER/BARR claimants and Agents.

Influence of ER and BARR on behaviour – summary of types of responses coded to each category

- 6.5 Figures 6.1 and 6.2 below give a summary of the types of responses coded to each category of low, medium and high level of derived influence for ER and BARR respectively. Within each category factors around the behavioural drivers for business and asset planning, the role of the relief in tax planning strategies and what would have been done differently if the relief had not been available are examined.



Figure 6.1: Influence of ER on business behaviour (low, medium or high) by types of responses

Influence of ER on behavior			
	Behavioural drivers around business and asset planning	Role of ER in tax planning strategy	What would have been done differently if ER not available
Low	<ul style="list-style-type: none"> Retirement planning drives sale of business Planning to sell business regardless of availability of reliefs 	<ul style="list-style-type: none"> Reliefs not in existence when company started, so little impact on planning ER just the best option for course of action (e.g. realising most value from sale or closing business) being taken anyway – was not a consideration originally No real impact at all 	<ul style="list-style-type: none"> Would not have changed anything
Medium	<ul style="list-style-type: none"> Planning to sell business in order to retire, but reliefs have impact on how this is planned and precise timing Availability of reliefs accelerated plan to sell business in order to retire 	<ul style="list-style-type: none"> Availability of the relief had an impact on planning <i>whether</i> to exit the business (at what point the offer value would be sufficient to tempt a sale) Availability of the relief had an impact on planning <i>how</i> to exit the business (though decision on whether to leave already made) 	<ul style="list-style-type: none"> May have planned retirement in different way (e.g. phased retirement and winding down of company, rather than single sale) May have delayed sale in order to achieve better value May have negotiated higher price for sale
High	<ul style="list-style-type: none"> Reliefs a significant factor in deciding at what point to sell a business (achieving the value desired) 	<ul style="list-style-type: none"> ER a crucial factor in the calculation of whether to invest in a business, and at what point to subsequently sell the business ER impacts on decisions regarding how to structure a new business and when to sell The percentage tax relief has large impact on future business plans of shareholders of company For those setting up businesses now, availability of ER a factor in planning business 	<ul style="list-style-type: none"> Would not have sold company for offer that was made, as without the relief the value realised would not have been sufficient

Figure 6.2: Influence of BARR on business behaviour (low, medium or high) by types of responses

Influence of BARR on behavior			
	Behavioural drivers around business and asset planning	Role of BARR in tax planning strategy	What would have been done differently if BARR not available
Low	<ul style="list-style-type: none"> Did not influence behaviour, was just a bonus to have the relief Asset would have been sold regardless 	<ul style="list-style-type: none"> Availability of BARR had no impact on business planning 	<ul style="list-style-type: none"> Would not have changed anything
Medium	<ul style="list-style-type: none"> Made business action affordable BARR encouraged sale of asset as able to re-invest capital BARR used to offset capital gain 	<ul style="list-style-type: none"> Availability of BARR had no impact on this business action, but may influence future business planning now that aware of relief BARR influences decision on whether and when to re-invest 	<ul style="list-style-type: none"> Would still have sold asset, but re-investment less likely May have made sale of asset and purchase of replacement too expensive
High	<ul style="list-style-type: none"> Selling property to re-invest in further property and grow business 	<ul style="list-style-type: none"> BARR a vital part of business model/planning – reliant on BARR to enable business growth 	<ul style="list-style-type: none"> Growth plan for business would not be possible



Influence of ER and BARR on behaviour – analysis by categories

- 6.6 Claiming ER was most likely to have had a low influence on business behaviour, however there were some claimants for whom it had a medium influence, and only three for whom it had a high influence.
- 6.7 Claiming BARR typically had a low influence on business behaviour, however there was one claimant for whom it had had a medium influence, and another for whom it had a high influence.
- 6.8 In relation to ER claimants, agents were most likely to think that claiming the relief had a medium level of influence on business behaviour, while some felt it only had a low influence (none felt it had a high influence). Agents views of BARR claimants showed a similar pattern.

Influence of ER and BARR on tax planning

- 6.9 Based on the interviews conducted as part of this research there is little evidence that the reliefs were forming part of a longer term tax planning strategy. Only one claimant mentioned anything which could be interpreted as the reliefs influencing tax planning strategy. Specifically they described how the directors of the company “split” their shareholdings with their partners before the sale of the company, and that this had been planned in advance with an understanding of the criteria for the relief. This claimant had always planned to sell and it was explained that ER had no influence on the final decision to sell.
- 6.10 Appendix A presents various case study examples of claimants for whom the relief had either a low, medium or high influence on business behaviour, as well as the case study where ER had influenced tax planning.



Appendix A: Case Studies

6.11 This section details various case study examples of claimants for whom the relief had either a low, medium or high influence on business behaviour, as well as the case study where ER had influenced tax planning.

High influence on business behaviour

BARR Claimant: High influence.

This claimant was a Managing Director of a brewery, and the BARR claim was linked to the sale of several pubs. The business had continued to grow and BARR was claimed with a view to reinvestment of all of the profits.

The claimant had a broad understanding of capital gains tax policy, but had not felt the need to seek further information regarding CGT. They were broadly aware of the current rates and had a similar level of knowledge of other taxes they were liable for. They had a detailed understanding of both ER and BARR, including about the pre-requisites for claiming and the rates. They had looked into claiming ER and were confident that they would also be eligible to claim this. However, as they were looking to reinvest, it seemed to make more sense to claim BARR.

For the initial claim they consulted an agent for support. In addition, they also heard about the reliefs through word of mouth from business people in a similar position, as well as discovering more on the HMRC website. They stated that there is definitely enough information available about the reliefs to meet their needs, and that the information on the HMRC website is good and accessible, although they stated there is a lot of fairly complex content to navigate.

They had a positive opinion of the reliefs believing that they encourage entrepreneurship and reinvestment. They felt the principle behind these kinds of reliefs seems really clear.

The availability of BARR had a high influence on the claimant's business decisions and were central to their business planning. They stated that the availability of the tax relief had taken the worry out of selling assets. If BARR did not exist the claimant felt the company would have been less likely to sell the assets, which would have a detrimental effect on the business.



ER Claimant: High influence.

This ER claim was related to a local furniture retail business. The claimant bought into the business as a short term investment before they retired, in order to revive what was a failing business. Once the business was successful, they decided to sell it to its management team, who already worked there. It was the relief that motivated this claimant to invest in the business in the first place, as they knew they could then sell it without having to pay the full 40% of capital gains tax.

They had a broad understanding of CGT policy, having gained information from their accountant from time to time. The claimant had a detailed knowledge of ER (including the rates and criteria for claiming) from their accountant, who dealt directly with the process of claiming. The claimant believed that most people interested or eligible for the relief would have access to an accountant for information.

This claimant had previously sold a business without claiming ER, as it was not available at the time, meaning they had had to pay the full 40% rate. They were frustrated with the changes made to CGT policy by successive governments, as they felt it made business planning difficult, but they stated that the current reliefs are appropriate, as they do encourage people to establish businesses.

ER highly influenced this claimant's decision to buy the furniture business in the first place. If the relief had not been available, they may not have invested in the business in the first place.

ER Claimant: High Influence.

The ER claim in this case was related to the sale of a software development business, which had been running for nearly 20 years. The business was sold when the Directors received an offer which they felt was tempting enough for them to sell. This was based on a calculation of what lump sum they would be left with after the sale and deduction of any tax, therefore the availability of ER and the reduced CGT tax paid impacted on this valuation. If the relief had not been available a higher offer would have been required for it to be tempting to the Directors.

This claimant had a broad understanding of CGT and a similar level of knowledge of this compared to other taxes they were liable for. They relied on their accountant for information on CGT and advice claiming the relief. However, they had a detailed understanding of ER, with knowledge of the limit and rate of the relief. They also had an awareness of BARR, as they briefly looked into it with their accountant. They believed that the HMRC website is straightforward with good examples.

The reliefs were seen as positive by this claimant as they felt they encourage the start-up of businesses, creating employment. They did not think there should be a lifetime limit on the relief because as long as entrepreneurs are setting up businesses this generates more employment and helps to grow the economy.

Being made a good offer for their business encouraged the claimant to sell, as the aim was always to build the business to a decent size and value and then sell it. The relief was a significant factor in calculating the price in which they would sell the business for, and without the relief they would not have sold it for that amount. They believed that the availability of the relief was a consideration when taking a key business action.



ER Claimant: High Influence.

This business began as a sole trader, which then grew into a large consultancy partnership, in which the claimant joined and became a non-executive director and shareholder. The ER claim was made when the founder decided to sell the company. The directors had been considering selling the company for around 10 years, and were looking to develop a business that would sell, rather than reinvest the proceeds of the sale.

ER was specifically discussed only when they wanted to ensure that the sale was structured in a way that benefited the shareholders and owner. Prior to this, the claimant had some background knowledge of ER and now has a detailed understanding of CGT and ER. Again, this claimant shared the view that reliefs are good as an incentive for people to start their own businesses, encouraging entrepreneurship.

This claimant would not consider themselves an entrepreneur, as they would never take the risk invests their own money to start up a business. Although the name of the relief doesn't necessarily relate to them, they felt it is good in that it encourages people to establish businesses as it gives them reward for the risk taken.

ER was a significant factor in calculating the price the owner was willing to sell for, and therefore the timing of selling the business. Without the relief the sale would not have proceeded, as the owner would not have been satisfied with the final sum received (after tax).



Medium influence on business behaviour

BARR Claimant: Medium Influence.

BARR was claimed when selling a company owned property. The business had been operating for 20 years.

This claimant did not have much knowledge regarding CGT policy in general, but knew as much about this tax as others that they were liable for. They said they would know who and what to ask if they were to require more information, with the government website and accountant mentioned as sources of information. They were vaguely aware of BARR before selling the property, however they had a better understanding of how it works following the claim. This claimant checked the details with their accountant and relied on their accountant to ensure that what was done was legally correct. They described their relationship with their accountant as a collaborative relationship around advising.

They viewed reliefs as fair and believed that BARR acted as an incentive. They stated that BARR did not influence the timing of a sale, but it did influence the timing of re-investment in new property. Their main reason for using BARR was to save paying tax, as the business was continuing and it was ideal to keep the profits in the company. If BARR had not been available they would have still sold the company owned property, however the planning and timing of reinvestment would have been different.

ER Claimant: Medium Influence.

This ER claimant has claimed the relief on two to three occasions, as they had invested in a number of businesses. The most recent claim was in 2013, with the sale of a warehousing company, and prior to this the claimant had owned a chartered accountancy practice.

Due to being a chartered accountant they knew more than most about CGT and the reliefs available. They also stated that there are sufficient information and sources available if there were any details they needed to check or confirm, such as the HMRC website, accountancy colleagues and accountancy reference books. They did not like capital gains tax itself feeling that it taxes inflation, inhibiting transactions and market liquidity. The claimant felt the name Entrepreneurs Relief is appropriate for the target audience of entrepreneurs, and that the relief is a reward for risks taken to set up a business, which helps the economy by attracting investors and creating employment.

The claimant stated that all business decisions were totally independent of tax decisions. Although ER was a consideration when they received a business offer from a third party, they believed that tax reliefs should not be a consideration when investing. However, they did feel that reliefs such as ER influence the timing and points at which business actions may take place. If ER had not been available the sale of the business may have been deferred or negotiations around the price may have been made.



Low influence on business behaviour

BARR Claimant: Low Influence.

One of the BARR claimants owned a company which manages venues. The majority of the venues were leased by the company, however there was an occasion where a BARR claim was made in a 'sale-and-leaseback' arrangement in order to refinance the business.

The claimant had little knowledge of either capital gains tax or the reliefs available, as generally these were not applicable to the business. This lack of knowledge contributed to them not having a particularly strong view on CGT policy. They said where required information would be sought through advisors if they required further information in the future. BARR was claimed based on the recommendations of agents, and they were fully reliant on agents for advice, as the business had no internal tax team.

BARR did not have any influence on their business decision, and it was seen as just an added bonus. If the relief had not been available nothing would have been done differently. In commercial decisions overall, potential tax liability was not considered at all.

ER Claimant: Low influence.

This ER claimant was the owner of a dental practice for 20 years, ER was claimed when the claimant sold the business as they were retiring.

They had a broad understanding with regards to CGT and ER, without knowing the specific details. They also stated that they did not have a desire to learn more about the reliefs, and were fully reliant on agents to be guided through the process of claiming. The name Entrepreneur's Relief was thought to appeal to smaller businesses, rather than big global firms. However this claimant did not view themselves as an entrepreneur and the name did not impact their decision to claim. They felt that the reliefs are good, though they had not been available when he had set up his business, so were not considered then. The claimant had been aware of Tapers relief, and felt that ER is much simpler.

The availability of the relief did not impact on the business decision or timing of the sale at all. If ER had not been available the course of action would have been the same. They did not think the reliefs would act as an incentive, but felt it would be part of the way you would assess the value of the business when selling.



Evidence of influence on tax planning

ER Claimant:

The company was an engineering firm that won a large contract, but needed significant investment in the business in order to meet the contract. The Directors were not in a position to make this investment themselves, and took the decision to sell the company (including the new contract) to a larger American company that was in a position to make the investment. The decision to sell was also partly motivated by two of the Directors wishing to retire in the near future.

The claimant had little awareness or knowledge of CGT and typically allowed their accountants to deal with it, but they generally had a broad understanding of ER and the criteria for the relief. Being able to claim ER was not a factor in the sale, as they would have sold the company anyway, but it did allow them to realise more capital from the business.

When the Directors discussed the possible sale with their accountant the accountant suggested that two family members that worked for the company should go 'on the book's'. This involved transferring shares and making them official company employees.

The claimant explained that it had made sense for us to do that, as without doing that they may well have got less advantageous deal. The claimant stated that 'You could play games with it and our accountant totally understood and we worked it out very quickly and easily'.



Appendix B: Methodology

Given one of the main objectives of the research was to better understand behavioural drivers in relation to the two tax reliefs it was agreed that a qualitative approach was most appropriate.

Originally the intention was to conduct a combination of 30 face-to-face depth interviews and four focus groups, however recruitment for the focus groups proved particularly challenging, due to a lack of available, clustered sample in the proposed areas (Manchester and London). The BARR sample in particular was restricted, as there were only around 400 companies that made a claim for BARR in 2012/13.

Although claimant sample was provided by HMRC, the sample did not have telephone numbers available and a process of tele-matching (both automatic and manual) was undertaken. In total around a third of numbers were successfully matched.

All claimants were sent an introductory letter and initial contact was made through a detailed recruitment screener ascertaining who the most appropriate person to speak to was. Interviews were arranged at a time and place convenient to the claimant.

Issues encountered during recruitment included:

- Locating the correct person (who needed to be referred by someone on the sample);
- Claimants referring to an accountant (as the accountant handled all elements of the claim);
- Accountants refusing or not getting back to IFF; and
- Claimants refusing either because they felt they could not comment or did not have time to help;

A pragmatic approach was taken to fieldwork, with a total of 35 depth interviews, and one mini-group conducted. The mini-group was conducted with three ER claimants.

Interviews were conducted with a range of ER and BARR claimants, some of whom had used agents and some who had not, as well as a range of agents who had advised on CGT reliefs, including some from the top four accountancy firms.

A wide range of sectors were represented, and where stated businesses varied in:

- Turnover (from £150,000 p/a to £30m);
- Number of employees (from Sole Traders to 100+ employees); and
- Age of business (from three years to over 30 years).

Although each interview focused on the type of relief claimed (as identified by the sample) claimants were also asked about the other type of relief, in order to gather relevant findings across both reliefs.

Primarily the interviews were conducted face-to-face, although five were conducted over the telephone. These interviews lasted approximately 45 minutes to an hour and all took place between 21st August and 16th October 2014.



The table below shows the breakdown of interviews achieved.

Table C1: Achieved sample¹

Audience	Total number of interviews	Used Agents	Not Used Agents
ER Claimants	17	13	4
BARR Claimants	7	6	1
Agents 'Top'	4	N/A	
Agents Other Firms	7	N/A	
TOTAL	35	19	5

The topic guides used for the interviews and mini-group are provided in Appendix D.

¹ Agent 'Top' refers to 'The Big Four' - the four largest international professional services networks, offering audit, assurance, tax, consulting, advisory, actuarial, corporate finance, and legal services. These are Deloitte, PwC, Ernst & Young and KPMG. Agents 'Other firms' are any other agents.



Appendix C: Topic guides

ER / BARR –Discussion Guide

CLAIMANTS

Introduction (5 mins)

- **Introduce self**
 - Confirm respondent has received confirmation e mail and agreed to do interview
- **Introduce IFF Research and work we are conducting for HMRC**
 - Thank you for agreeing to take part in this valuable piece of research.
 - The interview will take up to 60 minutes.
- **Confidentiality**
 - All the information we collect will be kept in the strictest confidence and used for research purposes only.
 - We will not pass any of your details on to any other companies. It will not be possible to identify any individual or individual company in the results that we report to HMRC and the answers you give will not be traced back to you.
- **Recording**
 - Permission to record
 - At the end we will ask if you are happy to have an anonymised version of this transcript provided to HMRC – no obligation to agree, absolutely up to you.
- **Subject**
 - Today's discussion will focus on the reliefs current available on Capital Gains Tax – specifically Entrepreneurs Relief and Business Asset Roll over relief

ASK:

- **Respondents' role**
 - Adapt depending on whether business closed/sold or still trading
 - Day to Day role / current
 - When it was closed / sold?
 - How long the business has been operation?
 - What does the business primarily make or do? What sector is in it?
 - What is the size of the company?

Prompt: Throughout we are interested in gathering detail of the circumstances of the company/asset, sale, financial figures involved, % shareholding that claimant had etc. Obviously not pushing it if respondent does not want to, but it is helpful to have the context behind a claim to assess other issues.



Awareness and knowledge Capital Gains Tax (10 mins)

- **Explore general knowledge of Capital Gains Tax**
 - How much do you know about Capital Gains Tax?
 - Do you know what the current rates of CGT are for individuals (or trustees)?
 - How much do you know about CGT in comparison to other taxes you may be liable for?
 - Have you ever sought to find out more about CGT?
 - *From who / what sources?*
 - *When?*

- **Explore general knowledge of the reliefs**
 - How much do you know about Entrepreneurs Relief (ER)?
 - Do you know how the relief works?
 - What is the rate of relief?
 - Do you know what the pre-requisites are for claiming it?

 - What does the name of the relief mean to you?
 - Why do you think it is called Entrepreneur's Relief?
 - Do you see yourself as an entrepreneur? Why? Why not?
 - Did the name encourage you to claim/find out more about the relief?

 - Have you ever sought to find out more about ER?
 - *From who / what sources?*
 - *When? Why?*
 - *If HMRC website – did they need to find out the detail on the relief from the website, or were they just looking for an overview?*

 - How much do you know about Business Asset Roll-over Relief (BARR)?
 - Do you know how the relief works?
 - What is the rate of relief?
 - Do you know what the pre-requisites are for claiming it?
 - Have you ever sought to find out more about BARR?
 - *From who / what sources?*
 - *When?*
 - *If HMRC website – did they need to find out the detail on the relief from the website, or were they just looking for an overview?*

- **Explore thoughts on policy**
 - Do you think the reliefs available for capital gains are good or bad for businesses such as yours?
 - Why? Why not?

 - Do you think there is enough information available about the reliefs?
 - Is it clear how and when you can claim them?
 - Are there any improvements that could be made to the information available?

Claiming ER (30 mins)

ASK SECTION IF SAMPLED AS PRIMARILY AN ER CLAIM

I'd like you think specifically about the ER you claimed recently

- **Talking through how and why ER was claimed**



- Can you talk me through the process of claiming ER on this occasion?
 - When did you first consider claiming it?
 - What initially triggered you to think about claiming it?
 - *Agents?*
 - *Previous experience/knowledge – have you claimed it in the past? How many times?*
 - *Other sources of information?*
 - *The name of the relief – Entrepreneur' Relief?*
 - What was your perception of ER when you heard about it?
 - *Were you aware of the previous Tapers relief, and if so how did you think they compare?*
 - Did you weigh up the options of claiming ER against other reliefs (e.g. BARR, or other reliefs)?
 - *What other options did you consider?*
 - *Why did you decide against those?*
- **Explore the business 'event' which the claim was linked to**
 - Can you talk me through the context of the business event that the claim was linked to?
 - Were you looking to close or sell your business?
 - Sell some of your shares in your company that conducts the business?
 - Sell other assets or part of the business?
 - *Probe to understand assets/business sold/transferred to – i.e. to a third party or a new company owned by the same person*
 - Why were you looking to undertake this course of action?
 - Retiring?
 - Looking to reinvest/set up another business?
 - Release capital from the business?
 - Tax efficient/saving/planning
 - Other
- **Exploring the relationship between the relief and the action taken**
 - To what extent did knowing about ER influence the timing of when to undertake the course of action you did?
 - Were you always planning to undertake this action?
 - Did entrepreneur's relief incentivise you to invest/re-invest or set up another business? Why/Why not?
 - Did knowing about ER encourage you to bring forward / put back the decision?
 - *Why? Why not?*
 - *[Probe if knowledge of the qualifying requirements affected action]*
 - Has your experience in claiming ER altered your future business plans?
 - If yes, in what way?
 - Has it made you more or less likely to claim in the future? Why?
 - Do you feel that ER is something to consider at the 'start-up' stage of a business, or is it applicable at any point?
- **Whether they encountered any barriers in claiming ER**
 - Did you encounter any barriers to claiming ER?
 - Were you aware of the limitations at the time of planning/claiming?
 - Had to be sale of the whole or a distinct part of a business?
 - Minimum of 5% shareholdings in a company?
 - Lifetime limit of £10m?
 - Requirement to be an 'officer or employee' of the company?
 - Did anyone else in your company try and claim ER?



- Did any of these limitations constrain your business decisions?
 - E.g. Has the 5% shareholdings requirement constrained your ability to bring in extra shareholders to the company?
- Would the removal or change of any of them impact on business decisions?
- How were these overcome – did you have to undertake action to ensure you or others in your company could claim ER?
 - Issuing new shares?
 - Transferring shares to family?
- Can you talk me through the decision making process with regards to these actions?
 - Did they form part of longer term business plan?
 - To what extent were they influenced by your decision to claim ER?
- **Exploring effect on previous business decisions**
 - Did the availability of ER affect your past decisions to invest in the business?
 - Would you have acted differently if ER had not been available?
 - If ER had not been available, would you have still undertaken the same course of action with regards to investing in the business?
 - Why? Why not?
 - What might you have done differently?
- **Discussion over ER criteria**
 - Thinking specifically about the criteria in place over ER – how appropriate do you feel they are?
 - Minimum of 5% share holdings where business conducted by a company?
 - Sale of whole or part of business rather than any business assets?
 - Lifetime limit of £10m?
 - Why? Why not?
 - Have they directly impacted on any of the decisions you have made with regards to the business to date?
 - Do you have a view on whether the criteria should be increased / reduced?
 - Why do you say that?
 - By how much should they increased / reduced?
 - Would such changes have had an impact on your decision making process with regards to the business?
 - In what ways? Why?

ASK SECTION IF SAMPLED AS PRIMARILY AN ER CLAIM – BUT ALSO HAVE EXPERIENCE OF BARR

You also mentioned that you had claimed BARR around [INSERT DATE]

- **Talking through how and why BARR was claimed**
 - Can you talk me through the process of claiming BARR on this occasion?
 - When did you first consider claiming it?
 - What initially triggered you to think about claiming it?
 - *Agents?*
 - *Previous experience/knowledge – have you claimed it in the past? How many times?*
 - *Other sources of information?*

ASK ALL

- **Do you generally consider the potential tax liability on a future sale when considering investing in your business?**



- If so, would you take account of the potential availability of a tax relief like ER or BARR?
- Do you think of tax as a separate cost or just part and parcel of the way you assess the value of an investment?
- Do you think of a tax relief like ER or BARR as an incentive to act in a certain way or as a reward for past actions?

Claiming BARR (30 mins)

ASK SECTION IF SAMPLED AS PRIMARILY AN BARR CLAIM

I'd like you think specifically about the BARR your company claimed recently

- **Talking through how and why BARR was claimed**
 - Can you talk me through the process of claiming BARR on this occasion?
 - When did you first consider claiming it?
 - What initially triggered you to think about claiming it?
 - *Agents?*
 - *Previous experience/knowledge – have you claimed it in the past? How many times?*
 - *Other sources of information?*
 - Did you weigh up the options of claiming BARR against other reliefs (e.g. ER, or other reliefs)?
 - *What other options did you consider?*
 - *Why did you decide against those?*
- **Explore the business asset to which the claim was linked to**
 - Can you talk me through the context of the asset that the claim was linked to?
 - What was the asset?
 - When did you / do you plan to sell / dispose it?
 - Was the asset used purely for business purposes?
 - Have you reinvested some of the proceeds from the sale yet?
 - Why? Why not?
 - When do you plan to do so?
 - Have you / do you plan to reinvest all or some of the proceeds of the sale?
 - Why all? Why some?
- **Exploring the relationship between the relief and asset planning**
 - What were your reasons for using BARR?
 - Did or does BARR factor into your decision making when investing in new assets?
 - In what ways?
 - Does it make you more or less likely to invest in new assets or particular types of assets?
Why? Why not?
 - To what extent did knowing about BARR influence the timing of when to sell/dispose of assets
 - Were you always planning to undertake this action?
 - Did knowing about BARR encourage you to bring forward / put back or change the decision on which assets you disposed of and/or acquired or retained?
 - Why? Why not?
 - Has your experience in claiming BARR altered your future business plans?



- If yes, in what way?
- Has it made you more or less likely to claim BARR in the future? Why?

- **Whether they encounter any barriers in claiming BARR**
 - Did you encounter any barriers to claiming BARR?
 - Were you aware of the limitations at the time of claiming?
 - Must be reinvested between 1 year before / 3 years after disposal of assets?
 - Did these limitations constrain your business decisions?
 - Would the removal or change of any of them impact on business decisions?

 - How were these overcome – did you have to undertake action to ensure you could claim BARR?
 - Bring forward / put back the decision over when to sell / dispose of assets?

 - Can you talk me through the decision making process with regards to this?
 - Did they form part of longer term business plan?
 - To what extent were they influenced by your decision to claim BARR?

- **Exploring what might have been done differently if the relief had not been available**
 - What, if anything, do you think you would have done differently if BARR had not been available?
 - Would you have still sought to sell/dispose of assets?
 - Why? Why not?
 - Would you have still sought to reinvest in new business assets?
 - Why? Why not?

- **Awareness of Entrepreneurs' Relief**
 - Are you aware of Entrepreneurs' Relief?
 - Have you claimed it or are you thinking about claiming it in the future?

ASK SECTION IF SAMPLED AS PRIMARILY AN BARR CLAIM – BUT ALSO HAVE EXPERIENCE OR AWARENESS OF ER

You also mentioned that you had claimed ER around [INSERT DATE] / MAY CLAIM ER IN THE FUTURE

- **Talking through how and why ER was claimed/may be claimed in future**
 - *[If has been claimed]* Can you talk me through the process of claiming ER on this occasion? *[adapt following questions if indicates that thinking about for future]*
 - When did you first consider claiming it?
 - What initially triggered you to think about claiming it?
 - *Agents?*
 - *Previous experience/knowledge – have you claimed it in the past? How many times?*
 - *Other sources of information?*

ASK ALL

- **Do you generally consider the potential tax liability on a future sale when considering investing in your business?**



- If so, would you take account of the potential availability of a tax relief like ER or BARR?
- Do you think of tax as a separate cost or just part and parcel of the way you assess the value of an investment?
- Do you think of a tax relief like ER or BARR as an incentive to act in a certain way or as a reward for past actions?

The role of advice / agents (10 mins)

INTERVIEWER NOTE: This may be covered spontaneously above – if not please ensure all the following lines of questioning are covered

- **Explore in more detail the role of advice / agents**
 - To what extent do you rely on Agents and third parties in relation to tax compliance?
 - More specifically, to what extent did you seek third party advice during your decision to claim ER / BARR?
 - At what stage of the process?
 - What sort of agent/third party were they?
 - Did you ask the agent for advice on CGT relief or did they suggest this to you?
 - Do you know whether your agent had to check the details of the tax relief, or were they already very familiar with them?
 - To what extent did they...
 - Recommend / suggest you claim ER / BARR?
 - Explain the details of CGT and the reliefs?
 - Suggest changes that would help you or your colleagues meet ER or BARR requirements?
 - Had it not been for advice / agents do you think you would have still claimed ER / BARR
 - Why? Why not?
 - Had it not been for advice / agents do you think you would have still [*refer back to events undertaken by the business*]?
 - Why? Why not?
- **IF DID NOT USE AGENTS: Why do you not use agents?**
 - Did you consider using them in relation to the CGT reliefs?
 - Why? Why not?



Final wrap up (5 mins)

- Check whether there is anything else they'd like to add that hasn't been discussed about Capital Gains Tax, ER, BARR or HMRC?
- And would you be happy for us to pass a transcript of this interview to HMRC, on an anonymised basis, so with any identifiers removed?

THANK RESPONDENT AND CLOSE INTERVIEW

I declare that this survey has been carried out under IFF instructions and within the rules of the MRS Code of Conduct.		
Interviewer signature:	Date:	
Finish time:	Interview Length	Mins



ER / BARR –Discussion Guide

AGENTS

Introduction (5 mins)

- **Introduce self**
 - Confirm respondent has received confirmation e mail and agreed to do interview
- **Introduce IFF Research and work we are conducting for HMRC**
 - Thank you for agreeing to take part in this valuable piece of research.
 - The interview will take up to 60 minutes.
- **Confidentiality**
 - All the information we collect will be kept in the strictest confidence and used for research purposes only.
 - We will not pass any of your details on to any other companies. It will not be possible to identify any individual or individual company in the results that we report to HMRC and the answers you give will not be traced back to you.
- **Recording**
 - Permission to record.
 - At the end we will ask if you are happy to have an anonymised version of this transcript provided to HMRC – no obligation to agree, absolutely up to you.
- **Subject**
 - Today's discussion will focus on the reliefs current available on Capital Gains Tax – specifically Entrepreneurs Relief and Business Asset Roll over relief

ASK:

- **Respondents' role / about the firm**
 - Day to day job role?
 - How long they have worked there?
 - Type and nature of the clients they assist?
 - Any specialist areas/sectors?

Agents' awareness and knowledge of ER and BARR (2-3 mins)

NB: Interviewer – use discretion – if it is obvious that Agents have a very good understanding or working knowledge – move on to the next section

- **Explore general Agents' knowledge of the reliefs**
 - How much do you know about Entrepreneurs Relief (ER)?
 - Do you know how the relief works?
 - What is the rate of relief?
 - Do you know what the pre-requisites are for claiming it?
 - Where did you get your information about the relief? When? Why?
 - How much do you know about Business Asset Roll-over Relief (BARR)?
 - Do you know how the relief works?



- What is the rate of relief?
- Do you know what the pre-requisites are for claiming it?
- Where did you get your information about the relief? When? Why?

Clients' awareness and knowledge Capital Gains Tax (5-10 mins)

- **Explore clients' general knowledge of Capital Gains Tax**
 - How much do your clients know about Capital Gains Tax?
 - Do they know what the current rates of CGT are for individuals (or trustees)?
 - How much do they know about CGT in comparison to other taxes they may be liable for?
 - Do you see any differences in the types of clients (sectors/size of business) that you assist?
- **Explore clients' general knowledge of the reliefs**
 - How much do your clients know about Entrepreneurs Relief (ER)?
 - Do they know how the relief works?
 - Do they know what the pre-requisites are for claiming it?
 - Do you see any differences in the types of clients (sectors/size of business) that you assist?
 - Do you think the name of the relief has any influence on their decision to claim it/find out more about it?
 - Why? Why not?
 - How much do your clients know about Business Asset Roll-over Relief (BARR)?
 - Do they know how the relief works?
 - Do they know what the pre-requisites are for claiming it?
 - Do you see any differences in the types of clients (sectors/size of business) that you assist?
- **Explore thoughts on policy**
 - Do you think the reliefs available for capital gains are good or bad for your clients?
 - Why? Why not?
 - Do you think there is enough information from HMRC available about the reliefs?
 - Is it clear how and when businesses can claim them?
 - Are there any improvements that could be made to the information available from HMRC?

Claiming relief generally (5 mins)

I'd like you think specifically about your experiences of assisting clients with ER and BARR over the last year or so

- **Explore how are claims split between the two reliefs**
 - Do you tend to assist clients with one type of relief more than other?
 - Which?
 - Why do you think this is?



- To what extent does the profile of businesses claiming the reliefs differ?
 - Size?
 - Sector?
 - Why do you think this is?
 - Are there any other factors that are important?

- **Talking through how and why reliefs are claimed**
 - How and why are reliefs usually claimed?
 - What in your view initially triggers businesses to claim the reliefs?
 - *Your role as adviser?*
 - *Previous experience/knowledge – have they claimed it in the past? How many times?*
 - *Other sources of information?*
 - *The name of the relief – Entrepreneur' Relief?*

- **Extent to which you see businesses claiming both reliefs**
 - To what extent do you see businesses claiming both reliefs?
 - Do the same clients tend to use the same relief repeatedly?
 - What sort of clients are repeat users of the reliefs, if so, why and for which relief?
 - Does claiming one relief make your clients aware of the other?

ER Relief (20 mins)

Thinking specifically about ER

- **Explore the business 'events' related to ER**
 - Can you give me examples of the type of business events that ER claims relate to?
 - Closing or selling businesses?
 - Selling shares in the company that conducts the business?
 - Sell other assets or part of the business?
 - *Probe to understand assets/business sold/transferred to – i.e. to a third party or a new company owned by the same person*
 - Which is most common?

 - Why do claimants undertake these courses of action?
 - Retiring?
 - Looking to reinvest/set up another business?
 - Release capital from the business?
 - Tax efficient/saving/planning
 - Other
 - Which is most common?

 - To what extent does the profile of businesses claiming influence these?
 - Size?
 - Sector?
 - Why do you think this is?
 - Are there any other factors that are important?

- **Exploring the relationship between ER and the action taken**
 - To what extent do you think knowing about ER influences the timing of when to undertake the course of action your client took?



- Does entrepreneur's relief incentivise them to invest/re-invest or set up another business? Why/Why not?
- Do you think their experience in claiming ER alters future business plans?
 - If yes, in what way?
- To what extent does the profile of businesses claiming influence these?
 - Size?
 - Sector?
 - Why do you think this is?
 - Are there any other factors that are important?
- **Discussion over ER criteria**
 - Thinking specifically about the criteria in place over ER – how appropriate do you feel they are?
 - Minimum of 5% share holdings where business conducted by a company?
 - Sale of whole or part of business rather than any business assets?
 - Lifetime limit of £10m?
 - Why? Why not?
 - Do you have a view on whether the criteria should be increased / reduced?
 - Why do you say that?
 - By how much should they increased / reduced?
- Do your clients ever encounter any barriers to claiming ER?
 - Are they aware of the limitations of claiming?
- How are these overcome – do they have to undertake action to ensure they can claim ER?
 - Issuing new shares?
 - Transferring shares to family?
- To what extent does the profile of businesses claiming influence these decisions?
 - Size?
 - Sector?
 - Why do you think this is?
 - Are there any other factors that are important?
- **Exploring what might have been done differently if the relief had not been available**
 - What, if anything, do you think you clients would have done differently if ER had not been available?
 - Would they have still undertaken the same course of action with regards to their business?
 - Why? Why not?
 - To what extent does the profile of businesses influence this?
 - Size?
 - Sector?
 - Why do you think this is?
 - Are there any other factors that are important?

Claiming BARR (15 mins)



Thinking specifically about BARR

- **Explore the business assets to which BARR claims are linked to**
 - Can you give me examples of the types of asset that claims are often linked to?
 - What assets?
 - Was the asset used purely for business purposes?
 - Which is most common?
 - When do businesses reinvest all or some of the proceeds of the sale?
 - Why all? Why some?
 - At what point? Why?
 - To what extent does the profile of businesses claiming influence these?
 - Size?
 - Sector?
 - Why do you think this is?
 - Are there any other factors that are important?
- **Exploring the relationship between the relief and asset planning**
 - To what extent do you think BARR factors into your clients' decision making when investing in new assets?
 - In what ways?
 - Does it make them any more or less likely to invest in new assets or particular types of assets?
 - To what extent does knowing about BARR influence the timing of when clients decide to sell/dispose of assets?
 - Do you think their experience in claiming BARR alters their future business plans?
 - If yes, in what way?
 - To what extent does the profile of businesses claiming influence these?
 - Size?
 - Sector?
 - Why do you think this is?
 - Are there any other factors that are important?
- **Whether clients encounter any barriers in claiming BARR**
 - Do your clients ever encounter any barriers to claiming BARR?
 - How aware are they of the limitations at the time of claiming?
 - How are these overcome – do your clients have to undertake action to ensure they can claim BARR?
 - Bring forward / put back the decision over when to sell / dispose of assets?
 - To what extent does the profile of businesses claiming influence these?
 - Size?
 - Sector?
 - Why do you think this is?
 - Are there any other factors that are important?
- **Exploring what might have been done differently if the relief had not been available**



- What, if anything, do you think your clients would have done differently if BARR had not been available?
 - Would you have advised them to do anything differently?
 - Would they have still sought to sell/dispose of assets?
 - Would they have still sought to reinvest in new business assets?
 - Why? Why not?
- To what extent does the profile of businesses influence this?
 - Size?
 - Sector?
 - Why do you think this is?
 - Are there any other factors that are important?

The role of advice (5 – 10 mins)

- **Explore in more detail the role of advice**
 - What type of advice are clients looking for in relation to these reliefs?
 - To what extent do you need to explain the details of CGT and the reliefs?
 - Do you feel most clients are reliant on Agents and third parties for information and advice regarding these reliefs?
 - At what stage of the process is your advice generally sought in relation to the reliefs?
- **How advice impacts on decisions**
 - How does your advice tend to impact on their decisions?
 - What do you think they would do differently without your advice?
- **Extent to which clients are proactive in asking for advice about reliefs**
 - To what extent are clients proactive in asking you for advice about these reliefs?
 - To what extent are you proactive in offering advice to clients on these reliefs?

Final wrap up (2-3mins)

- Check whether there is anything else they'd like to add that hasn't been discussed about Capital Gains Tax, ER, BARR or HMRC?
- And would you be happy for us to pass a transcript of this interview to HMRC, on an anonymised basis, so with any identifiers removed?

Yes	
No	

NOTE TO INTERVIEWER: Please record in the box below any comments respondents would like removed from the transcript.



THANK RESPONDENT AND CLOSE INTERVIEW

I declare that this survey has been carried out under IFF instructions and within the rules of the MRS Code of Conduct.			
Interviewer signature:		Date:	
Finish time:	Interview Length	Mins	

