

A tax that may prove too popular

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Entrepreneurs' Relief is a flat-rate capital gains tax of 10pc that currently applies to individual lifetime gains of up to £10m Photo: Alamy

By Rachel Bridge

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As the owner of a tiny chocolate business, Amelia Rope is a long way from thinking about how much capital gains tax she might eventually pay if she sells her venture for a huge profit.

But she is adamant that, if and when that moment comes, she will deserve every penny she walks away with.

“Entrepreneurs live and breathe their businesses, we compromise every aspect of our lives to making them work, from relationships to having any kind of balance,” said Ms Rope, who supplies her uniquely flavoured chocolate bars under the Amelia Rope Chocolate brand to Selfridges, Fortnum & Mason and Liberty.

Happily, the Government agrees. Since 2008, entrepreneurs selling their businesses have been able to benefit from Entrepreneurs' Relief, a flat-rate capital gains tax of 10pc, which currently applies to individual lifetime gains of up to £10m.

Entrepreneurs' Relief applies to those who own at least 5pc of their business and work in it, and compared with the taper system, which it replaced, is far simpler to operate. Thanks to its low rate, it also has the rare distinction of being one of the few taxes that virtually everyone is happy to pay. In 2010-11, some 39,000 individuals claimed Entrepreneurs' Relief, up 11pc on the previous year, on total gains of £12.2bn.

As well as rewarding successful entrepreneurs, it also encourages people to start and grow businesses.

While few will realistically end up with something they can sell for millions, the idea that you would get to keep most of that theoretical fortune is appealing.

Dougal Sharp, founder of Innis & Gunn, a fast-growing Scottish brewer with no current plans to sell, said: "It would be very dispiriting to devote your life to growing your business and then risk losing a significant proportion at the end."

Entrepreneurs' Relief plays a key role in keeping successful innovators in the UK instead of leaving to get a better tax deal overseas, and has done away with the need for elaborate tax avoidance measures. A 10pc tax rate is hardly worth the bother and cost of finding a way to avoid paying it – unlike say 30pc or 40pc, said Chris Connor of accountancy firm Streets.

The strength of Entrepreneurs' Relief is, however, its vulnerability. Its generosity has led some to fear it could become an easy target. Mark Mills, founder of Comergera, which helps SMEs sell their businesses, said: "I think Entrepreneurs' Relief will get cut back at the next election because, as the economy recovers, the amount that the Government could receive in capital gains tax will rise and they will want to take a bigger share of the pot."

Tax experts and entrepreneurs alike agree it has done a lot in its short life to encourage enterprise. Now they must hope the Government continues to feel the same way.

Rachel Bridge is an author specialising in entrepreneurship