

## Entrepreneurs Relief

The 2011 Budget increased the limit for Entrepreneurs Relief (ER) to £10 million per person which makes this a very generous relief which should not be missed.

ER started off its life in April 2008 and was very much the poor relation of the previous Taper Relief which had provided 10% tax on an unrestricted amount of gains realised from business disposals. The limit for ER has increased dramatically from its starting point of £1m - to £2m last April, £5m last June and now up to £10m for business disposals after 5 April 2011.

The key aspects of this relief include:-

- a lifetime limit of £10 million per individual for gains qualifying for the 10% rate;
- qualifying gains are those relating to the disposal of trading or professional businesses so, for example, a property rental business would not qualify;
- for disposals of shares, a minimum 5% shareholding, carrying at least 5% of the voting power, is required and the shareholder must be an officer or employee of the company. There is no minimum working requirement so a non-executive director can qualify as an officer of the company;
- for disposals of both shares in companies and of unincorporated businesses, there is a minimum ownership period of 12 months. Also for shares, the shareholder must be an officer or employee for at least 12 months before a sale.

ER can also apply to properties owned by a shareholder or partner and occupied by the business for the purposes of its trade. However if the individual charges the business rent for the property, ER will be restricted as the property will be regarded as an investment asset.

With this latest increase in the lifetime limit to £10m, the potential tax saving is currently £1.8m for each individual. For family businesses, an obvious consideration is to spread the ownership of a business likely to be sold amongst family members, so that each can qualify for the relief. This must be done at least 12 months before a sale, but also needs to take account of other issues including the inheritance tax and income tax impact.

This is clearly a valuable relief and it's time for all entrepreneurs to ensure that they are in a position to qualify.

**CONTACT:** Gill Pryde, Tax Partner

email: [gill.pryde@aab.co.uk](mailto:gill.pryde@aab.co.uk)

9 Queens Road, Aberdeen, AB15 4YL

tel: 01224 625111 fax: 01224 626007

website: [www.aab.co.uk](http://www.aab.co.uk)