

## End of the line for Entrepreneur's Relief?

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With the political hunt on to find extra tax revenues in order to end austerity, both Labour and the Conservatives have the Entrepreneur's Relief (ER) scheme firmly in their sights. The Labour manifesto states that *"it is now widely recognised that Entrepreneurs Relief in its current form cannot continue, so we will scrap it and consult on a better form of support for entrepreneurs which is not largely just a handout for a small number of people"*. The Conservative manifesto promises to *"review and reform entrepreneur's relief"*.

Although the abolition of ER in its current form could result in more than £2 billion of additional tax revenues to the UK government every year – money that could be invested in improving public services – what would the cost be to Britain's entrepreneurial ecosystem?

### What is Entrepreneur's Relief and why is it important?

ER is a tax relief scheme that was introduced by Gordon Brown's Labour government in 2008. Its aim was to incentivise people to establish and grow businesses in the UK by providing a reduced rate of Capital Gains Tax (CGT) on business disposals. The new relief took effect from the 2008/09 tax year and meant that any qualifying shareholders would only pay a flat rate CGT of 10%, as opposed to the standard (18%) and higher rate (28%) CGT rates.

Since its introduction, ER has evolved into one of the most generous reliefs on the statute book. The maximum lifetime limit has increased from the initial £1 million limit in 2008 to £10 million in 2011 and supporters argue the relief plays a key part in making the UK, and London in particular, a centre for entrepreneurial activity in Europe.

### So why should it be abolished?

However, there appears to be growing support for the idea that the ER scheme is no longer appropriate in its current form, and the former executive chair of HMRC, Sir Edward Troup, has made a recent call to scrap it altogether.

The key criticism is that a large number of people applying for ER are not themselves true 'entrepreneurs' – rather, they are already wealthy individuals who are making use of the relief in order to reduce their tax bill without having taken on any real financial risk. In addition, the relief has been widely used in structuring incentives for management teams in companies backed by private equity.

### Doesn't this undervalue the role of an investor?

Often, a 'genuine' entrepreneur with a brilliant idea can only get that idea off the ground with the support of an investor with the financial stability and liquidity to take a risk. While that investor may not be putting their livelihood on the line to fund the start-up, their role in enabling the business to grow is arguably just as important as the role of the penniless entrepreneur with the brilliant idea. As a vital component in the entrepreneurial ecosystem, the argument is that the investor should also be rewarded for putting their money at risk if and when that risk pays off, even if he or she is already comfortably off.

The counter-argument is, of course, that the investor is already rewarded in that situation by the increase in value of their investment and the profit they would make from it on a sale or other realisation. The risk, of course, is that the loss of ER will result in a reduction in the number of wealthy investors who are willing to stump up cash to fund start-ups in the first place.

### Would an alternative be put in place?

It is common ground among the main political parties that one role of government is to provide incentives and assistance to entrepreneurs to set

up businesses in the UK. Tax breaks (like ER) for those involved in business are in many ways key to attracting and retaining talent.

The Labour manifesto talks about replacing ER with *“a better form of support for entrepreneurs which is not largely just a handout for a small number of people”, on which they would consult. The Conservative manifesto simply promises to “review and reform”ER.*

Whichever party is elected on 12 December, it will be interesting to see how they would structure an alternative to ER and whether any revised formulation could be structured in such a way to reward and incentivise only perceived ‘real entrepreneurs’, who have put their livelihoods on the line to start their new business. At the end of the day, a vibrant and attractive business ecosystem cannot exist in isolation – there are many different ‘types’ of entrepreneur and ER is ultimately only one piece of a broader entrepreneurial policy pie.

If you have any questions regarding the UK General Election 2019, please contact your usual Withers contact. You may also wish to view our dedicated webpage which will be updated regularly before Thursday 12 December, [click here](#) to view it.

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