

FINANCE ACT 2010

EXPLANATORY NOTES

INTRODUCTION

Section 4: Increase in Entrepreneurs' Relief

Summary

1. [Section 4](#) increases the lifetime limit for gains that qualify for entrepreneurs' relief from £1 million to £2 million. It takes effect for qualifying disposals on or after 6 April 2010.

Details of the Section

2. Subsection (1) provides that the amount of the lifetime limit for qualifying gains is increased from £1 million to £2 million. It also makes a minor consequential change to the provisions relating to the lifetime limit so that, where earlier claims have used up the whole of the previous £1 million limit, the full balance of the increased lifetime limit is available for future qualifying gains.
3. Subsection (2) is the commencement provision. The new limit applies in respect of disposals made on or after 6 April 2010 that qualify for entrepreneurs' relief.

Background Note

4. Subject to certain conditions being satisfied, individuals can claim entrepreneurs' relief in respect of gains on the disposal of trading businesses they run either alone or in partnership, or of shares in a trading company (or the holding company of a trading group) provided they are an employee or office-holder of the company (or group) with at least 5 per cent of the ordinary share capital and voting rights. Gains qualifying for the relief are charged to capital gains tax at an effective rate of 10 per cent instead of the general rate of 18 per cent.
5. If gains which otherwise qualify for the relief exceed £1 million (whether as a result of one or more disposals), the effective 10 per cent rate applies only to the first £1 million of those gains. Any gains above that amount are charged at the 18 per cent rate. The limit applies to the total qualifying gains made in the individual's lifetime.
6. The section increases this limit to £2 million.
7. The increase applies to gains on disposals made on or after 6 April 2010. So if an individual made qualifying gains of £1.2 million before that date, the change will not allow relief for the £0.2 million that fell outside the old limit. However, if the same individual made further qualifying gains of £1.5 million after 5 April 2010, £1 million of those further gains would qualify for relief, giving the individual entrepreneurs' relief on accumulated qualifying gains up to the new limit of £2 million.
8. Entrepreneurs' relief is also available to the trustees of a settlement in certain circumstances. One of the requirements for trustees to qualify is that the conditions that generally have to be satisfied in respect of the person making the disposal are satisfied in respect of a "qualifying beneficiary" of the settlement. In such cases, the trustees' gains qualifying for relief use up part of the beneficiary's lifetime limit of £1 million.

*These notes refer to the Finance Act 2010 (c.13)
which received Royal Assent on 8 April 2010*

This rule continues to apply, but for disposals on or after 6 April 2010 the beneficiary's lifetime limit is increased to £2 million.