

# Guide to Business Asset Disposal Relief (“BADR”) **aka Entrepreneurs’ Relief** **(“ER”)**

[Guide to Business Asset Disposal Relief/  
Entrepreneurs Relief]

## Introduction

Welcome to our Guide to BADR or as it is still better-known Entrepreneurs' Relief.

First things first – we are a firm of Corporate Recovery Specialists and Insolvency Practitioners. We are NOT tax advisors. We do not give tax advice to any third party and that includes any company or individual we may act for. The tax relief discussed below is claimed by the individual taxpayer in his/her own Tax Return and our recommendation is that the individual should always take advice from their own tax specialists.

Our Guide is solely aimed at those shareholders/directors who place their companies/Limited Liability Partnerships (“LLPs”) into solvent liquidation, known as Members' Voluntary Liquidation (MVL), in order to take the cash and assets out of the company by way of capital distribution[s] made by the duly appointed Liquidator. ER can also be claimed in other business circumstances and accordingly to understand the subject in its entirety, the first port of call should be the information provided on the Government's own website:

<https://www.gov.uk/business-asset-disposal-relief>

Please note that all our formal appointment takers are licensed as Insolvency Practitioners by the Institute of Chartered Accountants in England and Wales.

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## Entrepreneurs Relief

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## Entrepreneurs Relief

### 1. What is Entrepreneurs' Relief

ER is a personal tax relief that can be claimed by an individual and which can considerably reduce tax on a capital gain. It is a relief that was specifically introduced to encourage entrepreneurs to build businesses and reap the reward when they come to sell their shares or liquidate their company. Assets are effectively taken out of the business in a tax efficient manner. A reward for risk-taking and hard work.

The relief is claimed on "qualifying assets" and a tax rate of 10% is applied to such a gain.

Accordingly, directors and shareholders can reduce their individual tax bills considerably when crystallising a capital gain.

### 2. Benefit of ER

Quite simply the relief offers a substantial tax saving for many individuals.

A normal capital gain will attract a tax of rate of 10% if you are a Basic Rate Taxpayer and 20% if you are a Higher Rate Tax Payer. Given that taxpayers will start paying Higher Rate Tax when their income exceeds £50,270 pa, most individuals claiming ER relief, having ceased trading and had their company placed into formal liquidation (MVL), will be Higher Rate Tax payers, particularly if they have been taking substantial dividends in the tax year in which the company is liquidated.

To understand exactly how good the tax saving is, the individual taxpayer should get their tax advisor/accountant to prepare their tax calculation comparing what their tax bill would be with ER and what it would be without ER.

### 3. Eligibility

ER is claimed by an individual.

The individual must have been an officer of a company or an employee

The following criteria must have applied to the individual for at least the last 2 years up to the date that the company is placed into solvent liquidation:

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- The individual must have held 5% or more of the share capital and 5% of the voting share capital.
- This minimum percentage holding must have been in place for at least 12 months prior to the liquidation
- The gain must relate to a qualifying trade. For example, a non-trading activity such as “investment” will not qualify.

## 4. Relief limit - £1m

The lifetime limit of Entrepreneurs’ Relief was reduced from £10 million to £1 million in respect of qualifying disposals made on or after 11 March 2020.

## 5. Role of the Liquidator

The Liquidator and the liquidation are the conduit for getting ER relief.

In order to benefit from ER when a company has ceased trading, it must proceed into a solvent liquidation process [a Members Voluntary Liquidation]. The Liquidator is the entity that makes the capital distributions to the shareholders. Such distributions are “chargeable events” for Capital Gains Tax purposes and details of the distributions should be shown on the individual shareholder’s Self- Assessment Tax Return for the appropriate tax year. Capital distributions may fall across a number of tax years.

The Liquidator’s main role, after ensuring that capital distributions are made in a timely manner, is to obtain tax clearance for the company from HM Revenue & Customs. When such clearance is obtained and all funds have been dealt with, the liquidation will come to an end and the company dissolved 3 months after the Liquidator has ceased to act.

## 6. How is ER claimed

It is claimed within the individual shareholder’s Self-Assessment Tax Return [“SATR”]. The online SATR must be submitted by midnight on 31 January in the year following the tax year in question. For example, your SATR for the tax year 2020/2021 [year ending 5 April 2021] has to be submitted by 31 January 2022.

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## 7. FAQs

**Q** My company ceased trading 18 months ago- am I too late to claim ER?

**A** *No, you can still qualify for relief if you liquidate your company within 3 years.*

**Q** Do I have to wait until tax clearance for the company has been secured by the Liquidator before I can receive my monies?

**A** *No, most Liquidators [but not all] will make capital distributions before tax clearance has been obtained. The shareholders will have to provide the Liquidator with an Indemnity should it transpire that funds have to be returned to the company, for example when Corporation Tax has been underestimated or when creditors, not previously accounted for, come to light.*

**Q** How long does the process take?

**A** *In most cases, the liquidation is completed within 9-12 months.*

**Q** If I claim ER, can I still claim my Annual Capital Gains Tax allowance?

**A** *Yes, the tax-free allowance can be claimed against any gains you make in a particular tax year. The tax-free sum for the year ending 5 April 202 is £12,300.*

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**Q** When do I need to pay my own personal capital gains tax?

**A** *You must report your gain in your SATR in the year in which the disposal of assets occurred i.e., when the chargeable event occurred [see above]. The tax itself is due by 31 January following the end of tax year. For example, if the gain/chargeable event occurred on 30 June 2021, details of the gain would be included in your SATR for the tax year 2021/2022 and the tax would need to be paid by 31 January 2023.*

## Contact Us

For clear and impartial advice, please do not hesitate to contact us:

**Tel: 0800 652 5700**

**Email: [enquiries@insolvency-online.co.uk](mailto:enquiries@insolvency-online.co.uk)**

### Disclaimer:

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