

In 2013-14 just 3,000 people got tax relief of at least...

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HMRC [has just published new data](#) on capital gain tax and the reliefs given from it.

One of those reliefs is the so called Entrepreneur's Relief, which can be described as a scheme that is open to directors who own 5pc or more of a company, and which allows them to enjoy a 10pc tax rate on the capital gains they make when selling shares in the companies they own up to a lifetime limit of £10m. This compares with the 28pc rate of tax payable without the relief.

The data on this relief for the tax year 2013/14, the most recent available, is as follows according to HMRC:

Almost two billion of tax has been paid by those claiming Entrepreneur's Relief.

Now, what would have been paid if they had not enjoyed this extraordinary tax rate of 10%? To work this out I have weighted gains subject to the relief and not subject to the relief by the ratio of chargeable gains to total gains and then estimated the total tax due on each part of the gain and compared that estimate with the actual tax paid. The resulting table is this (click on it for a bigger version in another tab):

The key data is in the, admittedly rather small, right hand columns. My tax paid estimates are right within £70 million, which means I am 96.5% accurate, which is plenty good enough for this exercise. And what that tax paid estimate then suggests is that Entrepreneur's Relief costs £2.77 billion in tax foregone in 2013/14. Staggeringly, £1.8 billion of this cost represents tax savings to just 3,000 people in the year at an average cost to the Treasury of £600,000 each.

If you then remember that this is also only calculated by comparison with the 28% tax rate at which capital gains are currently, and in my opinion quite inappropriately, charged when I think normal income tax rates should apply, then this loss is actually

significantly understated. If these gains were actually taxed at income tax rates (and I see no reason at all why this should not be the case, not least as Nigel Lawson did this) then the annual cost of this relief is £5.39 billion and the relief to the top 3,000 recipients increases to £3.5 billion at a cost of £1,168,000 each.

These figures are not freaks by the way: if the total cost of Entrepreneur's Relief in 2013/14 at actual tax rates was £2.77 billion then in 2011/12 it was £2.15 billion and in 2012/13 it was £2.17 billion.

So if anyone is looking at how to pay for tax credits here's my answer. In 2013/14 just 10,000 people between them enjoyed tax relief worth than £4.6 billion when Entrepreneur's Relief was compared to the full income tax rate. Three million people are to lose £4.4 billion in tax credits.

Isn't it obvious that these absurd reliefs on capital gains should go to pay for the tax credits families need to make ends meet.

And if not, why not?