

Why we don't need capital gains tax entrepreneur's reli...

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I have just done a press interview on entrepreneur's relief, which is the provision that reduces the tax rate on gains made of up to £10 million on the sale by a person on most stakes in privately owned businesses.

I explained I thought the relief, [which costs about £2.7 billion a year](#), was wholly unnecessary. First, that's because real entrepreneurs will be entrepreneurs come what may because, as it has always been for me, having a boss is unimaginable for a moment longer than strictly necessary. In that case the tax relief is not needed to induce people to start businesses and so the spend does not change behaviour, and so is a waste of money.

Second, very clearly the relief is not to encourage entrepreneurial activity: it's given at a time when people cease to be entrepreneurs by selling out of their businesses and effectively declare themselves redundant with regard to its activities in most cases, meaning that again there is no benefit to the spend.

Third, the relief has really unfortunate behavioural consequences. That's because, by increasing the reward from sale it encourages sale too early, or when the business has not reached optimal size for moving on, or when it is still actually dependent on the entrepreneur who has been given an inappropriate incentive to quit. All are negative for the UK economy.

And last, the relief is largely argued for by people who have never set up, run or sold a business (politicians, bankers, business advisers who have been promoted into partnerships and paid lobbyists, including those in professional institutes) and so have no real idea about the process, which I certainly have. They think tax is important to real entrepreneurs in a way that is just not true.

So let's abolish this relief. There would still be a reduced tax rate of 28% on these gains.

But I would like the money to be used to encourage entrepreneurship. Give it to a national investment bank. Make it available as equity and grants for small businesses.

Many such sums paid will be less than £10,000 but could transform small business prospects. Some would be bigger, of course. But in all cases this would be about encouraging entrepreneurship at the time when the business needs help. The last occasion when that is needed is when it is sold at a gain.

So let's say goodbye to a relief that makes no sense at all.