Entrepreneur's relief: an exercise in the tax system re...

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Last summer I wrote this about the so-called Entrepreneur's Relief that UK capital gains tax provides:

Capital gains tax Entrepreneurs Relief does, in essence, reduce the rate of gains tax by those who sell privately owned businesses. In most situations they pay 10% on their gains rather than 20%. The tax rate is halved.

In the last year for which data is available the relief cost as much as the tax paid on these disposals, or £2.36 billion. Of this £1.73 billion went to just 4,000 people, at a tax savings of more than £430,000 each, on average.

That is wholly unjust. It is a simple boost to those already wealthy. Remember, these people had by definition just picked up gains of in excess of £4 million each. And as I have argued before, the relief makes no sense. It does not encourage entrepreneurial activity at all. It encourages short-termism and selling out rather than developing entrepreneurial activity, both of which are the opposite of what the UK needs.

Nothing about this relief makes any sense at all. It has to go.

Now there is an ongoing debate about the relief going, not least because the latest data shows it now costs £2.7 billion a year. That, to use a phrase that has now been popularised, is money spaffed against a wall.

Not all agree though. The Institute of Chartered Accountants in England and Wales is fighting a rearguard action. They implicitly acknowledge that the relief does not work:

While the exact nature of any changes is unknown at this stage, it's clear that more work could be done to improve ER and bring it in line with its intended purpose of supporting and encouraging investment.

For example, research conducted by IFF Research in May 2017 suggested that "in the majority of cases, ER was not the primary motivating factor when customers were making decisions about investing in assets, or disposing of them."

But they also note:

Certainly the government should seek further input from stakeholders before pushing any further reforms through.

A review into ER should consider all aspects of the relief and whether it is meeting its intended aims. This would include consideration of how ER impacts investment decisions, how it influences growing businesses across the UK, and whether it could be used to encourage investment in specific geographical or business areas.

So the views of those who get a lot from this, and have the time and resource to reply should be taken into consideration, because everyone knows the rest will not take part as they have other priorities. Such is the way that consultations do not serve the democratic process.

But on this I do have to agree with the Institute of Chartered Accountants in England and Wales:

Ideally, such a review would form part of a wider, more holistic look at business reliefs generally, so that the government can understand whether each relief is achieving its intended purpose and act accordingly.

Most tax reliefs related to wealth and savings would go on that basis: few deliver any obvious benefit that could not be better achieved in other ways. The job of the tax system is not to redistribute wealth upwards, but that is what most of these reliefs do.