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A guide to **Business Asset Disposal Relief**

What is Assets Disposal Relief?

Business Asset Disposal Relief (BADR) is a tax relief designed to reduce the Capital Gains Tax (CGT) when business owners sell qualifying assets.

Its primary aim is to reward entrepreneurs and encourage investment by reducing the financial burden of disposing of a business.

It applies to various transactions, including:

- Selling shares in a personal company.
- Disposing of a sole trade.
- Selling business assets held in a trust.

By offering a reduced CGT rate, BADR means that someone who has dedicated resources to building a business can retain more of their proceeds.

However, the relief underwent significant changes in the Autumn Budget 2024 so it's worth being aware of how it works and why it's important.

Why is it important

BADR is great for business owners as it provides substantial tax savings on qualifying disposals.

If you're reading this before April 2025, you could cut your CGT rate to 10 per cent on up to £1 million of lifetime gains, compared to the standard rate of up to 24 per cent for additional rate taxpayers.

After April 2025, the rate rises to 14 per cent, climbing to 18 per cent in April 2026 – making it more important than ever to actively maximise your gains!

As such, it's now vitally important that you plan your disposals carefully.

How BADR works

For a disposal to qualify, certain conditions must be met, including a 24-month qualifying period during which you must have been an officer or employee of the business and held at least five per cent of the company's shares and voting rights.

BADR is aimed at genuine entrepreneurs and business owners and the qualifying factors reflect this.

For example, a disposal of shares qualifies for BADR if the company is a 'personal company'.

A personal company is defined as one where, throughout the 24 months leading up to the disposal:

- The individual has held at least five per cent of the company's ordinary share capital.
- The individual is entitled to exercise at least five per cent of the voting rights in the company.
- The individual has a beneficial entitlement to at least five per cent of the company's distributable profits and assets available on winding up, or five per cent of the sale proceeds if the company is sold for market value.

Qualifying assets for BADR also include disposals of sole trades, partnerships, or assets held by a trust, provided they meet the criteria for a material disposal of business assets.

Note: BADR is subject to a lifetime limit of £1 million in qualifying gains, meaning you can only benefit from the reduced CGT rate on gains up to this amount over your lifetime.

Thresholds and limitations

BADR is subject to a lifetime limit of £1 million in qualifying gains. Gains beyond the lifetime limit of £1 million in qualifying gains threshold will be taxed at the standard CGT rates applicable at the time.

So, if you are anticipating gains that exceed the £1 million limit, alternative reliefs may be worth exploring. For instance:

- Investors' Relief, which offers a reduced CGT rate for qualifying investors who have held shares in unlisted companies for at least three years.
- Enterprise Investment Schemes (EIS), which provide tax incentives for individuals investing in high-risk companies, including CGT reliefs under specific conditions.

However, you'll need to carefully consider which reliefs to go for, particularly with the upcoming changes to the BADR rates and the potential for higher tax liabilities.

Changes to BADR following the Autumn Budget 2024

The Autumn 2024 Budget introduced significant changes to the tax rates applied under BADR. From April 2025, the reduced rate of 10 per cent will begin to rise:

- **Disposals made on or after 6 April 2025:** BADR will apply at a rate of 14 per cent.
- **Disposals made on or after 6 April 2026:** The rate will increase further to 18 per cent.

This means that from April 2026, BADR will align with the new lower main rate of CGT, which also rose to 18 per cent following the Budget.

While the £1 million lifetime limit is unchanged, the financial advantage of claiming BADR will diminish as the rate rises, reducing the potential tax savings on offer.

For example, a business owner selling assets with a £1 million gain would pay £100,000 in CGT under the current 10 per cent rate, but £140,000 under the 14 per cent rate and £180,000 under the 18 per cent rate.

Some business owners, therefore, are planning to bring forward disposals to take advantage of the current lower rate.

However, timing a disposal should also consider your broader financial and business goals, as well as market conditions.

Timing your sale

While bringing forward your planned sale could lock in the lower rate, it is important to balance this decision against broader considerations, such as:

- Market conditions that may impact the sale price.
- The readiness of the business for sale.
- The alignment of the timing with your personal financial goals or retirement plans.

Engaging a professional adviser to assess these factors in the context of the BADR changes can help you develop a strategic approach.

However, timing a disposal should also consider your broader financial and business goals, as well as market conditions.

Anti-forestalling measures

It's worth remembering that the Government has implemented anti-forestalling rules to prevent taxpayers from circumventing the higher BADR rates through specific transactions.

These measures target gains triggered by historic share reorganisations, exchanges, and connected party transactions.

If you participated in any of the following between 6 April 2023 and 29 October 2024, you may need to review your position:

- A share-for-share exchange in a corporate reorganisation.
- A share sale to a connected party (such as a family member).
- A transaction where BADR or Investors' Relief conditions were met but the gain was deferred.

These rules ensure that deferred gains brought into charge after the rate changes will be taxed at the new higher rates.

> ***Reviewing transactions with a tax adviser is essential to avoid unexpected liabilities.***

Claims process and deadlines

Claiming BADR is a straightforward process, but it must be done within specific time limits to avoid missing out on the relief.

To make a claim:

1. **Determine your eligibility:**
   Ensure that the disposal qualifies for BADR by meeting the necessary conditions, including the 24-month qualifying period and the criteria for a personal company or other qualifying business assets.

2. **File the claim:**
   BADR is claimed as part of your Self-Assessment tax return. On the return, you must provide details of the disposal and explicitly state that you are claiming BADR.

3. **Meet the deadline:**
   Claims must be submitted by 31 January following the first anniversary of the end of the tax year in which the disposal occurred. For example:
   - If a qualifying disposal was made on 12 June 2023, it falls in the 2023/24 tax year. The deadline to claim BADR would be 31 January 2026.

If you are uncertain about the claim process or have a more complex situation involving multiple disposals or deferred gains, consulting a tax adviser can help ensure the process is handled correctly.

Common pitfalls

When claiming BADR, there are several common errors that can lead to delays, rejected claims, or even missed opportunities to benefit from the relief. These include:

- **Failing to meet the qualifying conditions:** Ensure that all conditions, including the 5 per cent shareholding and voting rights threshold, have been met throughout the 24-month qualifying period.
- **Errors in the tax return:** Incorrectly reporting the details of the disposal or failing to explicitly claim BADR can result in the relief not being applied.
- **Assuming eligibility without checking:** The rules for what constitutes a 'personal company' or qualifying assets are specific. Ensure that your situation aligns with these requirements.
- **Overlooking anti-forestalling rules:** If your claim involves gains from historic transactions, check whether anti-forestalling measures apply, as they can affect eligibility or the applicable tax rate.
- **Missing the deadline:** Late claims are generally not accepted, so it is essential to file within the specified timeframe.

> ***Remember: planning and professional advice can mitigate these risks and maximise the value of the relief.***

Examples of BADR in practice

To understand the practical impact of the upcoming changes to BADR, consider the following scenarios. Each example assumes a qualifying sale of business assets resulting in gains of £5 million, with £1 million of these gains eligible for BADR under the current lifetime limit.

Scenario 1: Sale before 5 April 2025	Scenario 2: Sale between 6 April 2025 and 5 April 2026	Scenario 3: Sale on or after 6 April 2026
Current BADR rate: 10 per cent	New BADR rate: 14 per cent	New BADR rate: 18 per cent
CGT liability under BADR: £1 million x 10% = £100,000	CGT liability under BADR: £1 million x 14% = £140,000	CGT liability under BADR: £1 million x 18% = £180,000
CGT liability on remaining £4 million (at 24%): £4 million x 24% = £960,000	CGT liability on remaining £4 million (at 24%): £4 million x 24% = £960,000	CGT liability on remaining £4 million (at 24%): £4 million x 24% = £960,000
Total CGT liability: £100,000 + £960,000 = £1,060,000	Total CGT liability: £140,000 + £960,000 = £1,100,000	Total CGT liability: £180,000 + £960,000 = £1,140,000

What to do next

The changes to BADR mean that timing and planning are more important than ever. Whether you're preparing to sell soon or considering a disposal in the future, taking proactive steps can help you maximise your tax savings and avoid costly mistakes.

You'll most likely require expert knowledge on BADR to proceed – particularly in light of the upcoming rate increases and anti-forestalling measures.

Our tax advisers can help you:

- Evaluate whether your disposal qualifies for BADR under the existing rules.
- Plan the timing of your sale to take advantage of the current lower rates, where possible.
- Review past transactions to identify potential issues with anti-forestalling rules.
- Explore alternative reliefs, such as Investors' Relief or Enterprise Investment Schemes, for gains exceeding the £1 million lifetime limit.

Professional advice ensures that your claim is accurate, complete, and submitted on time, avoiding errors that could delay or jeopardise your relief.

Whether you're ready to sell or just considering your options, consulting with a tax professional is the first step towards making informed decisions and securing the best outcome for your financial future.

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