

## CGT Deferral After a Business Sale

Defer capital gains tax into EIS for tax-free growth, income tax relief, and downside protection — ascension.vc

### Client Scenario

Your client has sold a business, property, or other asset and is facing a significant CGT bill. BADR has risen from 10% to 18%, and the annual exempt amount has dropped to £3,000. Deferring into EIS postpones the CGT liability indefinitely. If the EIS investment succeeds, the gains are tax-free after a 3-year hold. If it fails, loss relief reduces the effective cost. Either way, the client is deploying capital rather than paying tax on it.

**10% → 18%**

BADR rate  
by April 2026

**20% → 24%**

Standard CGT  
rate

**£3,000**

Annual exempt  
amount

### The Strategy

#### BADR + EIS deferral: use both

Your client doesn't have to choose between BADR and EIS deferral — they can use both. Pay BADR tax now at 14% on the qualifying portion to lock in the rate before it rises to 18%. Then defer the remaining gain (taxed at 24%) by investing an equivalent amount into EIS-qualifying shares. The deferred CGT only becomes payable when the EIS shares are disposed of. In the meantime, the capital that would have gone to HMRC is invested for growth — with 30% income tax relief received upfront and the potential for tax-free returns.

### Three Layers of Tax Relief

- 1 Immediate: income tax relief + CGT deferral**  
Client receives 30% income tax relief as a refund or reduction. CGT liability is deferred indefinitely. Capital that would have gone to HMRC is now invested.
- 2 If it succeeds: tax-free growth**  
After the 3-year qualifying period, gains on EIS shares are completely tax-free (s.150A TCGA 1992). Deferred CGT becomes payable at exit, but tax-free growth can exceed the deferred amount.
- 3 If it fails: loss relief**  
Available on the net cost (investment less income tax relief). Claimed against income at up to 45% or offset against capital gains — including the deferred gain itself. For higher-rate taxpayers, the loss relief refund can exceed the deferred CGT.

## How It Works

- 1 **Client realises a qualifying gain**  
Business sale, share disposal, or asset sale generating a chargeable gain.
- 2 **Subscribes for EIS-qualifying shares**  
Within the qualifying window: 1 year before to 3 years after the disposal date.
- 3 **CGT is deferred**  
No CGT payable on the deferred amount until EIS shares disposed of. BADR eligibility preserved.
- 4 **At exit: tax-free growth**  
Gains on EIS shares exempt after 3 years. Deferred CGT crystallises at the rate in force. On death, deferred CGT is eliminated entirely.

## Key Numbers

- CGT rates: 18% (basic rate), 24% (higher rate)
- BADR rate: 14% (2025/26), rising to 18% from April 2026
- Lifetime BADR limit: £1,000,000
- Income tax relief: 30% on EIS subscription
- Deferral window: 1 year before to 3 years after disposal
- Tax-free gains after 3-year qualifying hold
- On death: deferred CGT eliminated permanently

## Suitability

### May be suitable if:

- Client has a qualifying capital gain from a business or asset sale
- Client is a UK taxpayer with income tax liability
- Client can commit capital for 3+ years
- Client understands venture capital risk
- BADR has been fully or partially utilised
- Professional advice taken on EIS qualifying status

### Key risks:

- Capital loss — EIS is genuinely high-risk venture capital
- Illiquidity — no secondary market, 5–10 year typical hold
- Tax relief clawback if disposed within 3 years
- Legislative risk on BADR and CGT rates
- No FSCS protection

**Important:** This document is for illustrative purposes only and does not constitute financial, tax or investment advice. Figures are hypothetical and based on simplified assumptions and current tax legislation (2025/26). Tax treatment depends on individual circumstances and may change. EIS investments carry significant risk of total capital loss. They are illiquid, with no secondary market, and expected holding periods of 5–10 years or longer. EIS investments are not protected by the FSCS. Past performance is not a guide to future performance.

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