Finance Bill 2025-26: clause 35 – restriction of relief on disposals to employee ownership trusts

Personal tax OMB

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CIOT submitted a briefing on Finance Bill 2025-26 clause 35, calling for a review of the process for paying capital gains tax by instalments where a business is sold to an employee ownership trust.

The online article in January's edition of Technical Newsdesk (Employee ownership trusts: unexpected reduction in capital gains tax relief) provided an update on the Budget 2025 announcement which, with immediate effect, reduced the capital gains tax (CGT) relief available for the sale of a business to an employee ownership trust (EOT).

The CIOT provided a briefing to the Public Bill Committee on the draft legislation containing this change at clause 35 of the Finance Bill 2025-26. To recap, clause 35

replaces the previous full CGT exemption with a 50% relief for sales to EOTs taking place on or after 26 November 2025.

The CIOT briefing focused on the process for paying the CGT that will now arise on EOT sales. EOT transactions are frequently structured so that a substantial majority of the payment owed to the business owner for their shares by the EOT trustees is made in instalments over several years after the sale (known as deferred consideration), funded by the future profits of the business.

The relevant CGT on the full consideration (including the deferred element) will fall due by 31 January following the tax year in which the sale occurs, creating a risk of 'dry tax' charges and exposure to substantial late payment interest charges where the seller is unable to fund the payment of CGT because the deferred consideration has not yet been received.

Taxation of Chargeable Gains Act 1992 (TCGA 1992) s 280 allows CGT to be paid in instalments where disposal consideration is paid over more than 18 months. Therefore, it should be possible to apply for instalment payments on EOT sales with deferred consideration.

In practice, however, instalment applications can be cumbersome, as they must be made in writing to HMRC and can take a long time to process. The CIOT briefing therefore called for a review and modernisation of the application process, along with a mechanism to give certainty to business owners that instalment payments will be permitted ahead of the sale.

Under HMRC’s current practice in relation to TCGA 1992 s 280, the business owner is required to pay to HMRC 50% of each instalment of consideration received until the total CGT liability is settled, with a requirement for the tax payment to be made on the same day that the instalment of consideration is payable to the taxpayer. However, the 50% figure and instalment timing do not appear to be mandated by the legislation, which only refers to ‘such instalments as the Board may allow over a period not exceeding eight years’ and HMRC therefore appear to have discretion over how these rules are applied.

In light of the recent increase in HMRC’s interest rate charges, the CIOT briefing also called for a review of the instalment payment due dates and amounts in the case of EOT sales, in particular relaxing the requirement for the tax to be paid on the same day.

The CIOT briefing can be found here.

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