OTS paper on disincorporation relief

General Features OMB

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The Office of Tax Simplification (OTS) has published a focus paper calling for views on whether disincorporation relief (which is due to expire on 31 March 2018) is achieving its purpose.

Background to disincorporation relief

Disincorporation relief was introduced by Finance Act 2013. Its aim was to enable businesses to change their legal status from limited company back to a sole trader or partnership if the additional administrative burdens of running a company outweighed any advantages of incorporation.

The relief allows goodwill and chargeable assets (such as land and buildings) to be transferred at cost or written down value to shareholders on disincorporation, so that no gains arise in the company.

There are three key limitations on the relief:

- It only applies to disincorporations between 1 April 2013 and 31 March 2018.
- There is no tax relief for shareholders, who may still suffer tax charges on any distribution received.
- Relief is only available to businesses with qualifying assets (goodwill or interests in land) valued at less than £100,000.

Is the relief meeting its aims?

The relief has not been widely taken up – as of March 2016 only 50 claims had been made.

The OTS notes that there are a number of possible reasons why this might be the case:

- Few businesses actually wish to disincorporate.
- There is insufficient awareness of the relief.
- Disincorporation is too much trouble, or too costly in terms of adviser fees, for businesses.
- The relief is too limited due to the £100,000 limit and lack of shareholder relief noted above.

As the *sunset date* of 31 March 2018 is fast approaching, the OTS is keen to determine why the relief is not used and whether it should be allowed to lapse or continued in an amended form which made it more useful.

The OTS questions

The OTS would like to hear views on:

- Whether there is an untapped appetite for businesses to disincorporate?
- What types of company may wish to claim the relief?
- What are the minimum improvements that would be needed for the relief to be effective?
- Does the *Ipsos Mori* estimate that companies pay, on average, £1,426 more in tax agent fees than self-employed businesses form a reasonable representation of the additional administrative burdens for companies?
- What other factors apply when looking at the tipping point for disincorporation, and can these be quantified?

If you have any comments on these, or any other aspects of disincorporation relief which you would like to contribute, please email atttechnical@att.org.uk or technical@ciot.org.uk as appropriate. OTS has asked for responses by 15 September so early replies will be appreciated.