



Capital Gains Tax Entrepreneurs' Relief: Behaviours and Motivations

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Glossary

Term	Definition
CGT	Capital Gains Tax, a tax on the profit when an individual sells or gives away an asset that has increased in value. CGT rates are currently set at between 10% and 28% for individuals with the appropriate rate depending principally on the total income of the person and the nature of the asset being disposed of.
ER	Entrepreneurs' Relief (ER) provides for a reduced CGT rate of 10% on qualifying disposals of business assets.
Goodwill	The established reputation of a business regarded as a quantifiable asset and calculated as part of its value when the business is sold.
Group 1	Individuals who took part in the survey and had claimed ER in the past five years.
Group 2	Individuals who took part in the survey and had paid the full rate of CGT in the past five years.
Group 3	Individuals who took part in the survey and had neither paid CGT nor claimed ER in the past five years, but held assets that mean they might be eligible to claim ER in the future.
Intangible assets	An asset that is not physical in nature. Corporate intellectual property, including items such as patents, trademarks, copyrights and business methodologies, are intangible assets. Goodwill is also an intangible asset.
Taper relief	ER's predecessor, which was available until 2008 and reduced the amount of gain that was subject to CGT, if the assets giving rise to the gain fit specific criteria, depending on how long the asset had been held for.

1 Executive Summary

Introduction and background

- 1.1 Capital Gains Tax (CGT) is a tax on the profit when an individual sells or gives away an asset that has increased in value. CGT rates are usually dependent on the Income Tax band of the customer, and also vary depending on whether the gain is from residential property or other assets. If the individual's income is within the basic Income Tax rate band they will pay 10% on some or all gains (18% on gains accruing before 6 April 2016), or 18% on residential property. If the individual is within the higher Income Tax band, they will pay 20% on most gains (28% on gains accruing before 6 April 2016), or 28% on residential property. Gains on carried interest are always chargeable at 28%. However, if Entrepreneurs' Relief (ER) is claimed, those who sell or close their business or dispose of shares only pay 10% CGT on qualifying gains, rather than the full rates, subject to conditions.
- 1.2 To be eligible to claim ER, in general a claimant must be: an individual carrying on a business as a sole trader or a partner; a trustee disposing of assets used in a business; or own at least 5% of the shares in a trading company (or holding company of a trading group) and of which they are an officer or employee. The business must be carrying on a trade, profession, or vocation. They must meet these conditions throughout the 12 months preceding the disposal, or in some cases the cessation of trade.
- 1.3 The primary objective of this research was to understand whether ER acts as a motivating factor in individuals' business, investment, reinvestment, retirement, and tax planning decisions. In addition, the research sought to understand the drivers and barriers to claiming ER, the value and type of assets that people claim ER on, and whether the decision to claim ER is influenced by other CGT reliefs.

Methodology

- 1.4 IFF Research conducted 1,700 telephone interviews across three distinct groups of customers. These were drawn randomly from those who had completed a Self-Assessment tax return for the tax years ending in 2011 to 2015:
 - 625 interviews with individuals that had claimed ER (within the past five years). Throughout this report, findings from these individuals have been referenced as Group 1;
 - 603 interviews with individuals that had paid CGT at the full rate (within the past five years) because they had not claimed ER. Throughout this report, findings from these individuals have been referenced as Group 2; and
 - 472 interviews with individuals that had neither paid CGT nor claimed ER, but held assets that mean they are likely to be eligible to claim ER in the future. Throughout this report, findings from these individuals have been referenced as Group 3.

Key findings

- 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. Most often customers were looking to release funds for personal use (39%), retire (33%) or to reinvest (29%).
- However, statistical analysis of the data has shown that those most likely to be influenced by ER at the point of initial investment were those who, at the time of the interview, no longer had involvement in the company, but were intending to set up a new company and had been receiving professional advice. **This may suggest that ER is influencing some people to invest who later look to re-invest in new entrepreneurial activities**
- A fifth (22%) of all customers that had claimed ER (Group 1) reported that ER influenced their decision at some point, either at the point of investment only (5%), at the point of disposal only (13%), or at both points (3%)¹. The main reason given for the influence of ER at both stages was tax efficiency. Overall, 3% of all Group 1 customers were influenced by ER due to tax efficiency at the point of investment and 6% of all Group 1 customers were influenced due to tax efficiency at point of disposal. When focusing on those that mentioned tax efficiency as the only reason, this was given by 2% of Group 1 customers at the point of investment and 4% of Group 1 customers at the point of disposal.
- There were some differences in customers' motivations for disposing of assets (including the influence of ER) by the type and value of business asset disposed of. Disposing of different types of assets was associated with different reasons for disposal, for example, those disposing of property were more likely to be planning to retire and those disposing of shares were more likely to be looking to release funds for personal use. Group 1 customers who stated that assets included in their ER claim were worth over £1 million² were more likely to be influenced by ER at both investment and disposal.
- Among customers who had not paid CGT or claimed ER in the last 5 years but had assets that could be eligible (Group 3), 16% said ER would influence their business decisions (whether to close/sell the business or invest in new ones) in the future. This was in line with the proportion of customers who claimed ER and said ER had influenced their decision at the point of disposal.
- Three quarters (75%) of customers that claimed ER did not experience any barriers to claiming ER. Uncertainty around eligibility was the most common barrier mentioned by those who had claimed ER.

¹ These figures do not sum to 22% due to rounding.

² Note that this is the value customers gave during the survey.

Main findings within each of the three groups of individuals

Individuals who had claimed ER within the last 5 years (Group 1)

<p>Who were these individuals?</p>	<ul style="list-style-type: none"> At the time of interview, most individuals were between 45 and 64 years old (57%, evenly split between those aged 45 to 54 (28%) and aged 55 to 64 (30%)), this group had a mean age of 57), male (82%) and three-quarters were in employment (72%), including those who were self-employed. Most were selling their business or shares in their company, and half (49%) stated that the assets they were selling included all or part of their business. A quarter (27%) stated that they included Goodwill in their ER claim. There was some overlap between these answers, as customers were able to give more than one response from a list of read-out answers.
<p>How aware were these individuals of ER, and when did they become aware?</p>	<ul style="list-style-type: none"> Awareness of ER was highest amongst this group – 73% of Group 1 were aware at the point at which they sold the asset or closed the business. This means a quarter (27%) of Group 1 individuals only became aware after the relevant transaction e.g. as a result of professional advice. Awareness was much lower at the point of initial investment (16%), though some respondents may have invested before ER was introduced.
<p>What influence did ER have on these individuals' business decisions?</p>	<ul style="list-style-type: none"> ER, and its predecessor Taper Relief³, had some influence on this group's decision-making process. Around a fifth of all Group 1 customers (22%) were influenced by ER, or its predecessor Taper Relief, at some stage between initial investment and disposal of the asset / business: 5% only at the point of the initial investment, 13% only at the point of the event⁴, and 3% at both stages.⁵ Of those who were influenced by ER in their decision making, tax efficiency / planning was the most common reason given at both the investment and disposal stage for this influence (around a third of those that were influenced gave tax efficiency as a reason). Tax efficiency was given as the only reason for this influence by 20% of those influenced at point of investment and 24% of those influenced at the point of disposal. A quarter (26%) of Group 1 stated that the difference between CGT rates and other taxes influenced their business decisions. 16% of Group 1 customers who said that ER influenced their decision to dispose said that it brought the timing of their action forward. Of those that were influenced at the point of investment, this effect was not as frequently mentioned, with 5% stating that the availability of ER brought the timing of their investment forward. Over one in twenty (7%) Group 1 customers stated that Taper Relief, prior to the introduction of ER, had, at some point, an influence on the decision to reinvest in a new / existing business (1% big influence and 6% some influence), although this may not be the same business they disposed of when claiming ER. This 7% is largely made up of the same respondents who stated that they were influenced by ER (8%) at the point of investing in the business / asset discussed in the survey.
<p>Barriers faced to claiming ER</p>	<ul style="list-style-type: none"> Most faced no barriers whilst claiming ER (75%). Over a tenth (11%) of Group 1 stated that there was uncertainty around eligibility which was the most commonly faced barrier.

³ We cannot split out whether it was specifically ER, or Taper Relief which influenced their investment, as these were grouped when asked in the questionnaire.

⁴ The 'event' refers to the sale of assets that led to ER being claimed among individuals sampled in Group 1.

⁵ These percentages do not add up to 22% due to rounding.

Individuals who had not claimed ER in the last 5 years, and so paid the full rate of CGT (Group 2)

<p>Who were these individuals?</p>	<ul style="list-style-type: none"> • Almost two-fifths were over 65 (38%, the mean age was 61 years old) and nearly half were not in work (43%). • Most (61%) were selling residential property (average value c. £300,000) • The majority (61%) took action in order to release personal funds.
<p>How aware were these individuals of ER, and when did they become aware?</p>	<ul style="list-style-type: none"> • Awareness of ER was lower amongst this group. Around one-fifth (22%) of Group 2 were aware at the time they were planning to take action, whilst 7% were aware of ER at the point at which they decided to start the business or acquire the asset in question. As with Group 1, some may have invested before ER was available.
<p>What influence did ER have on these individuals' business decisions?</p>	<ul style="list-style-type: none"> • ER and its predecessor Taper Relief had little influence on this group when it came to their investment decision making. • Amongst the 7% aware of ER at the point of investment, 9% said it had any influence on their decision to invest. This equated to less than 1% of Group 2 overall (including those not aware of ER), being influenced by ER at the point of investment. These Group 2 customers who stated that they were influenced by ER mostly stated that did not claim as they did not think they were eligible. • Of the 15% of this group who were aware of Taper Relief, 6% were influenced by the relief. • 15% stated the difference between CGT rates and other taxes influenced their business decisions.
<p>Barriers faced to claiming ER</p>	<ul style="list-style-type: none"> • When asked directly why they did not claim ER, lack of awareness of ER was the reason most of this group did not claim ER (62%), although there is not conclusive evidence from this survey to show which of these Group 2 customers would have been eligible had they made a claim.

Individuals who had not claimed ER or paid CGT in the last 5 years (Group 3)

<p>Who were these individuals?</p>	<ul style="list-style-type: none"> • These customers were predominantly younger than Groups 1 and 2, a third were under 45 (35%, the mean age was 50 years old), and most were self-employed (64%).
<p>How aware were these individuals of ER, and when did they become aware?</p>	<ul style="list-style-type: none"> • Awareness of ER was lowest amongst this group. 16% of this group were aware of ER at the time of the interview, which is in line with the level of awareness amongst Group 1 customers at the point they invested.
<p>What influence did ER have on these individuals' business decisions?</p>	<ul style="list-style-type: none"> • A very small proportion (2%) of all Group 3 customers stated that they were influenced by the availability of ER, or its predecessor Taper Relief at the point they decided to start the business or acquire the asset. • In terms of whether ER might influence decision making in the future, 16% of Group 3 said that ER may influence their decision to sell existing assets or invest in new ones. When asked how ER would influence them, two in five (41%) of the 16% of Group 3 customers who stated they may be influenced in the future said that ER would be the reason for them investing in assets, and a third (30%) that ER would be the reason for them disposing of assets. Only 5% stated the difference between CGT rates and other taxes had influenced their business decisions.
<p>How likely these individuals are to claim ER in the future</p>	<ul style="list-style-type: none"> • Looking to the future, the majority of Group 3 (70%) said they would consider claiming ER if they became eligible in the future. • 12% of this group reported they would be likely to sell their business or other assets in the next 5 years.

2 Introduction and Background

- 2.1 Capital Gains Tax (CGT) is a tax on the profit made when an individual disposes of an asset that has increased in value. This can include gains made when selling, giving away, or exchanging business assets such as land, buildings, rights under a franchise, fixtures/fittings, and the goodwill⁶ of the business. Normal CGT rates were set at 10% and 20% for individuals in 2016 to 2017 tax year (depending on the total income of the person) and 20% for trustees or personal representatives of someone who has died. If the individual's income is within the basic Income Tax band they will pay 10% on some or all gains, or 18% on residential property gains. If the individual is within the higher Income Tax band, they will pay 20% on most gains, or 28% on residential property gains. Prior to this (and at the time of the disposals by Group 1 and Group 2 referred to in the survey), normal CGT rates were 18% and 28% for individuals, and 28% for trustees.
- 2.2 Entrepreneurs' Relief (ER) was introduced as part of the Finance Act 2008, and Taper Relief was withdrawn at the same time. ER means that those that qualify for the relief pay only 10% CGT on qualifying gains when they come to dispose of their shares, business or other assets rather than the normal rates. In general, this means that if the gains accrue on a disposal of shares, to be eligible for ER the claimant must have owned at least 5% of the shares in, and have been an office-holder or employee of, the company carrying on the business for the year preceding the disposal. If the gains accrue on a disposal of shares, a business, part of a business, or other assets then the business in question must be a trade, profession, or vocation and have been carried on for 12 months preceding the disposal or cessation. The maximum lifetime limit of ER increased between 2008 and 2010 to £10 million of relievable gains, meaning that ER can be worth up to £1.8 million to the claimant.
- 2.3 This research aimed to provide quantitative evidence of whether and the extent to which ER is incentivising investment or divestment business activities, hence providing insight to inform future policy developments. The primary objectives of this research were to:
- understand whether ER acts as a motivating factor in individuals' business, investment, reinvestment, retirement, or tax planning decisions;
 - understand the extent to which the criteria for eligibility, and other business and tax planning factors, act as drivers or barriers to claiming ER;
 - understand and quantify the value and type of assets people claim ER on,
 - understand whether the decision to claim ER is influenced by other CGT reliefs; and
 - understand the extent to which claimants expect assets to be economically productive after they have disposed of them.
- 2.4 This research builds on previous qualitative research undertaken to explore whether ER is having an impact on business behaviours and asset planning.⁷

⁶ The established reputation of a business regarded as a quantifiable asset and calculated as part of its value when the business is sold.

⁷ This research is published on HMRC's GOV.uk pages at <https://www.gov.uk/government/publications/capital-gains-tax-entrepreneurs-relief-and-business-asset-rollover-relief-research>

3 Methodology

- 3.1 IFF Research conducted 1,700 interviews across the three distinct groups of customers who had completed a Self-Assessment tax return for the tax years ending in 2011 to 2015:
- 625 interviews with those that have claimed Entrepreneurs' Relief (Group 1).
 - 603 interviews with those that have paid CGT at the full rate, because they had not claimed ER. This group may contain some individuals who were potentially eligible and those who were ineligible to claim ER (Group 2).
 - 472 interviews with those that had neither paid CGT nor claimed ER, but by the nature of assets they held at the time of the interview, we estimate might be eligible to claim in the future (Group 3).
- 3.2 The interviews were conducted using Computer Assisted Telephone Interviewing (CATI). The average length of the interviews varied between groups at 15 minutes for Group 1, 13 minutes for Group 2 and 10 minutes for Group 3. A 18% response rate was achieved, based on all telephone numbers in the sample. As noted in paragraph 3.6, analysis of response rates was conducted to correct for non-response bias (see Appendix A).
- 3.3 The questionnaire was piloted by telephone between 3 and 7 October 2016. Forty-four interviews were completed during the pilot. The flow and length of the questionnaire were subsequently amended to reduce burden on research participants.
- 3.4 Advanced letters were sent prior to a two-week opt-out period. Mainstage fieldwork ran between 24 October and 13 December 2016.
- 3.5 A random probability approach to sampling was taken. Each sample of customers is therefore representative of its respective population⁸.
- 3.6 Weighting and analysis:
- Open-ended responses were fully coded⁹; and
 - Responses were weighted within Group 1 to correct for variation in the ER claim value, as the interviews achieved underrepresented those with a lower claim value.
- 3.7 Throughout the report, where totals for question responses add up to over 100%, the questions were multi-coded so customers could give more than one answer.
- 3.8 Charts and tables included throughout the report where the customers could only give one response may sometimes add up to 99% or 101% due to rounding.

⁸ Each of the customer groups were not sampled in proportion to each other and there is therefore not a representative picture across all groups. Though within each group, the sample is representative of the population as far as HMRC data can determine.

⁹ Fully coded open-ended responses involved summarising qualitative responses into categories before being analysed.

4 Profiling the three customer groups

Demographics and employment status

- 4.1 Individuals that had claimed ER (Group 1) were predominantly male (82%) and tended to be aged over 45, with only 18% of customers reporting their age as under 45 and a mean age of 57 years old¹⁰. Two-fifths were in full-time employment (39%), while around a quarter were not in work (for example, they were retired) (27%) and a similar proportion were self-employed (25%). The remaining 9% were in part-time employment.
- 4.2 Individuals that had not claimed ER (Group 2) were split more evenly than Group 1 by gender, with two-thirds male (67%) and one-third female (33%). This group tended to be older, with 38% aged over 65 and a further 48% aged between 45 and 64, the mean age of this group was 61 years old¹¹. Two-fifths were not in work (43%), a quarter were either employed full-time (25%) or self-employed (22%) and the remaining 10% were in part-time employment. The higher proportion of retirement-aged customers in this group explains the high proportion who were not in work; 70% of individuals who said that they were not in work were aged 65 or over. This equates to almost a third (31%) of all Group 2 customers not in work as they were likely to be retired.
- 4.3 Two-thirds of Group 3 customers were male (66%) and one-third were female (34%). This group tended to be younger, the mean age was 50 years old¹². One third were aged under 45 (35%), half (53%) aged 45-64 and only the remaining 10% aged 65 or over. In addition, these individuals were more likely to be self-employed (64%), with a further quarter in full-time employment (24%), 8% were in part-time work at 3% were not in paid work. All Group 3 customers were asked the main activity of their business, the three most commonly mentioned sectors were Professional, Scientific and Technical activities (19%), Construction (17%) and Wholesale and Retail Trade (8%).
- 4.4 Customers in Group 3, all of whom were screened to confirm that they may be potentially eligible to claim ER on a future disposal, were asked about their role in the business or company they owned shares in. Around two-thirds (69%) confirmed that they were either directors or employees of companies, whilst a large majority (83%) said that they were the sole owners of, or partners in, an unincorporated business.¹³ All Group 3 customers that owned a company confirmed that the business in question had been trading for at least a year and was a company in which they had owned at least a 5% shareholding for over 12 months. Therefore, the majority were likely to be eligible to claim ER.

The role of advice in decision making

- 4.5 Customers in Group 1 and Group 2 were initially asked about whether they had received any support or advice about either the ER claim or the CGT paid. As table 4.1 shows, around two-thirds of Group 1 had an agent deal with the entire process of their ER claim (65%).

¹⁰ The median age for Group 1 customers was 57 years old.

¹¹ The median age for Group 2 customers was 61 years old.

¹² The median age for Group 3 customers was 50 years old.

¹³ Customers were able to fulfil both of these positions.

4.6 For Group 2, just two-fifths had an agent deal with all of the process (39%) and a similar proportion received no advice (41%). For the remainder of each group, around a tenth either received advice only (but dealt with the process themselves), whilst for another tenth an agent dealt with some of the process.

Table 4.1 Level of agent involvement/advice received for customers that claimed ER or paid full CGT rate¹⁴

		Claimed ER (group 1)	Paid full CGT rate (group 2)
Customer received no advice		12%	41%
Customer received advice only (dealt with process themselves)		12%	10%
Agent dealt with some of process		8%	8%
Agent dealt with ALL of process		65%	39%

Base: All Group 1 customers (625) and all Group 2 customers (603)

Levels of General Knowledge about CGT and ER at the time of the interview

Awareness among individuals that claimed ER (Group 1)

4.7 As shown in Figure 4.1, about three-fifths of customers in Group 1 had knowledge of CGT (13% had a lot, 46% had a little).

4.8 Just under half (47%) had a lot / some knowledge of ER, a further 34% were aware of it but only had a little or no knowledge. The remaining 18% stated that they were unaware of ER at the time of the interview. Those who had an agent fully deal with their ER claim were more likely to be unaware of ER at the time of interview (22%).

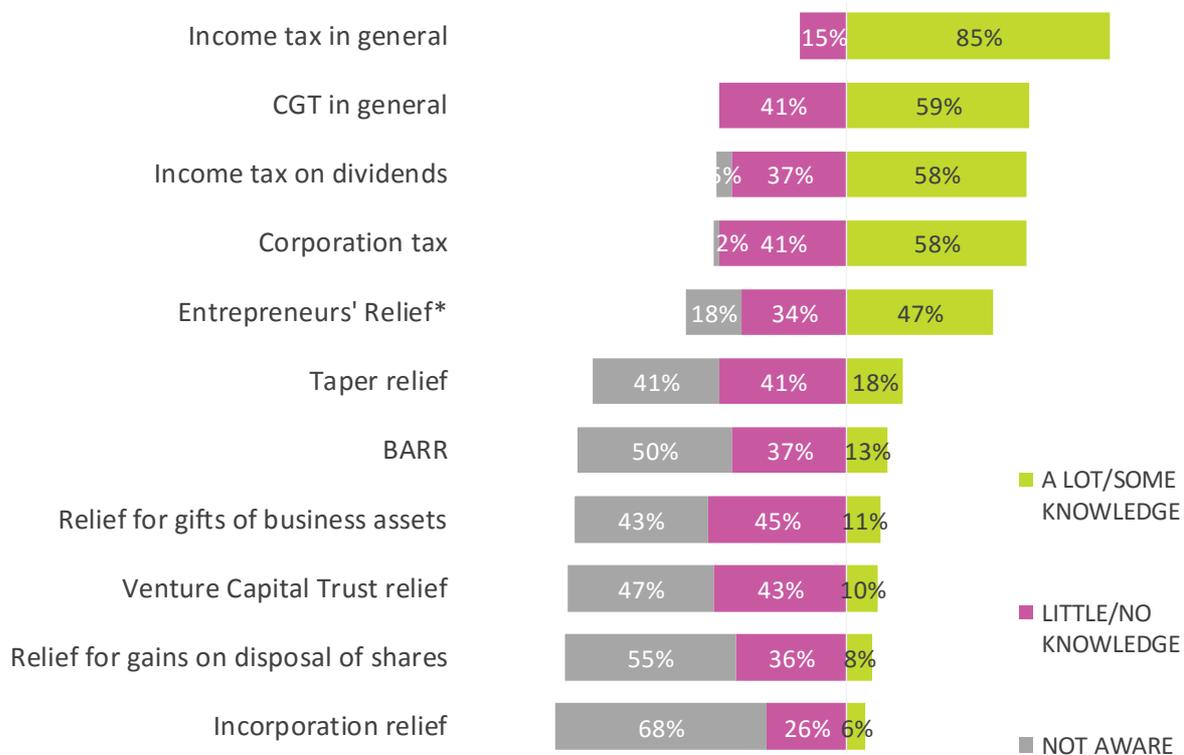
4.9 Customers were also asked about their levels of knowledge of other taxes and reliefs. They had more knowledge of all taxes and reliefs in comparison with groups 2 and 3:

- 34% had a lot and 52% had some knowledge of Income Tax;
- 16% had a lot and 46% had some knowledge of Income Tax on dividends;
- 18% had a lot and 40% had some knowledge of Corporation Tax; and
- 5% had a lot and 13% had some knowledge of Taper Relief.

¹⁴ The total does not sum to 100% as this table does not include don't know responses.

4.10 Customers who were more knowledgeable about CGT were less likely to use agents, whereas customers with less knowledge were more likely to use agents.

Figure 4.1 Levels of knowledge amongst individuals who claimed ER (Group 1)¹⁵



Base: B1: All Group 1 (625) *B2/B3 All Group 1 (625)

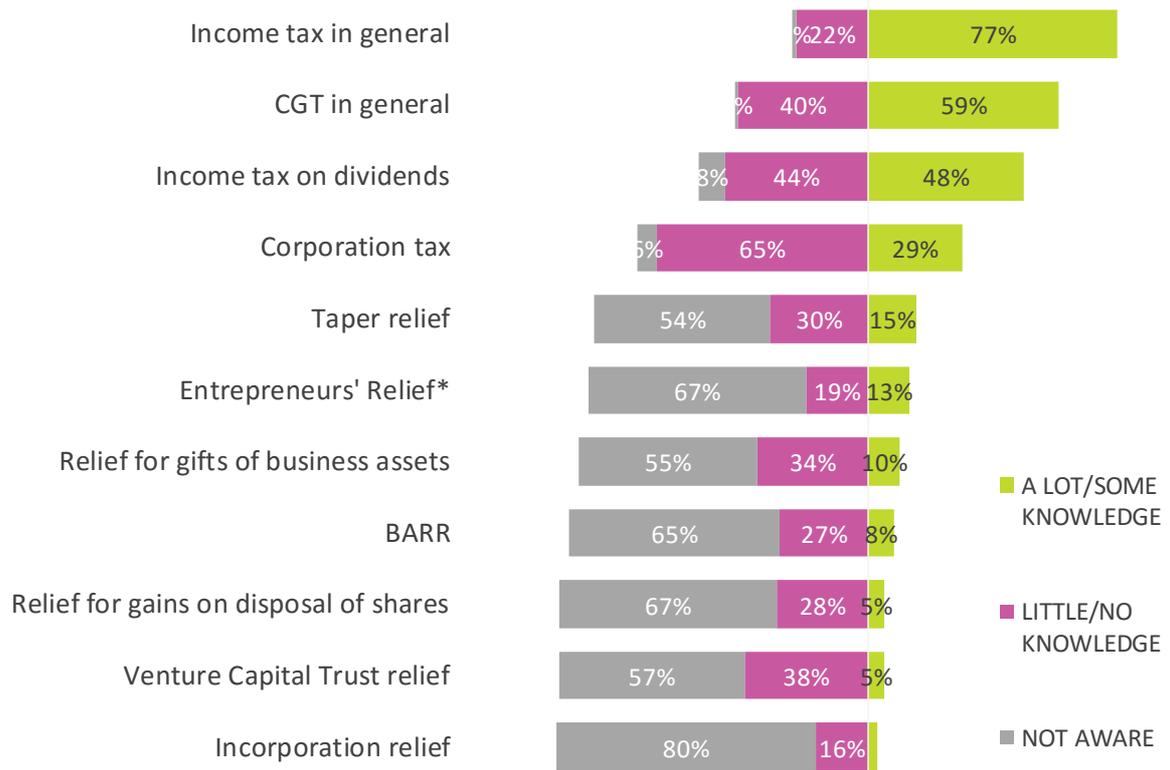
Awareness among individuals that paid CGT in full (Group 2)

4.11 As shown in Figure 4.2, customers in Group 2 showed a similar pattern of knowledge to those in Group 1, reporting a lot/some knowledge of Income Tax (49% had some, 29% had a lot) and CGT (47% some, 12% had a lot). However, they showed much lower levels of knowledge on Income Tax on dividends (38% had some, 10% had a lot) and Corporation Tax (19% had some, 10% had a lot). These customers had only slightly less knowledge of Taper Relief than those in Group 1 (12% had some, 2% had a lot).

4.12 Only a small proportion (3%) of Group 2 customers had a lot of knowledge of ER and 10% had some knowledge, 19% were aware but only had a little or no knowledge and the largest proportion (67%) were not aware of ER at the time of the interview.

¹⁵ BARR refers to Business Asset Rollover Relief

Figure 4.2 Levels of knowledge among individuals that paid CGT in full (Group 2)

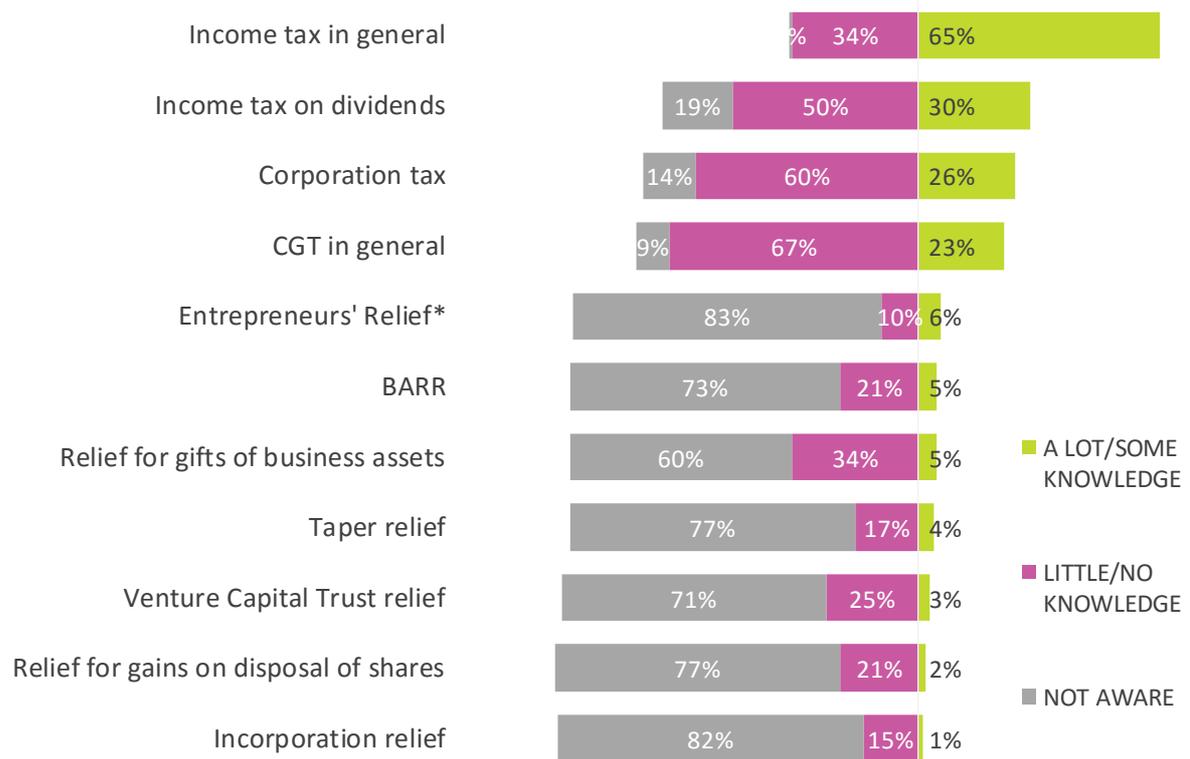


Base: B1: All Group 2 (603) *B2/B3 All Group 2 (603)

Awareness among individuals that had never paid CGT / claimed ER (Group 3)

4.13 As shown in Figure 4.3, customers in Group 3 had generally lower levels of knowledge of all taxes and reliefs mentioned in comparison with groups 1 and 2. They had the lowest knowledge of CGT (20% had some, 3% had a lot) of all three groups. Group 3 also had the lowest knowledge of ER (4% had some, 2% had a lot, 7% had a little and 3% had no knowledge but were aware). The majority (83%) of Group 3 customers were not aware of ER at the time of the interview.

Figure 4.3 Levels of general awareness (Group 3)



Base: B1: All Group 3 (472) *B2/B3 All Group 3 (472)

5 Understanding the 'event'

The definition of 'event'

5.1 In the context of the questionnaire, the 'event' referred to the disposal of assets that led to ER being claimed among individuals sampled in Group 1 or CGT being charged at the full rates by individuals sampled in Group 2.

Individuals that claimed ER (Group 1)

5.2 As shown in Figure 5.1, around one-third of customers in Group 1 sold their business (37%), a quarter sold shares (24%), and a fifth closed the business (21%). A small minority reported that they sold residential property (3%).¹⁶

Figure 5.1 Event that led to claiming ER (group 1)

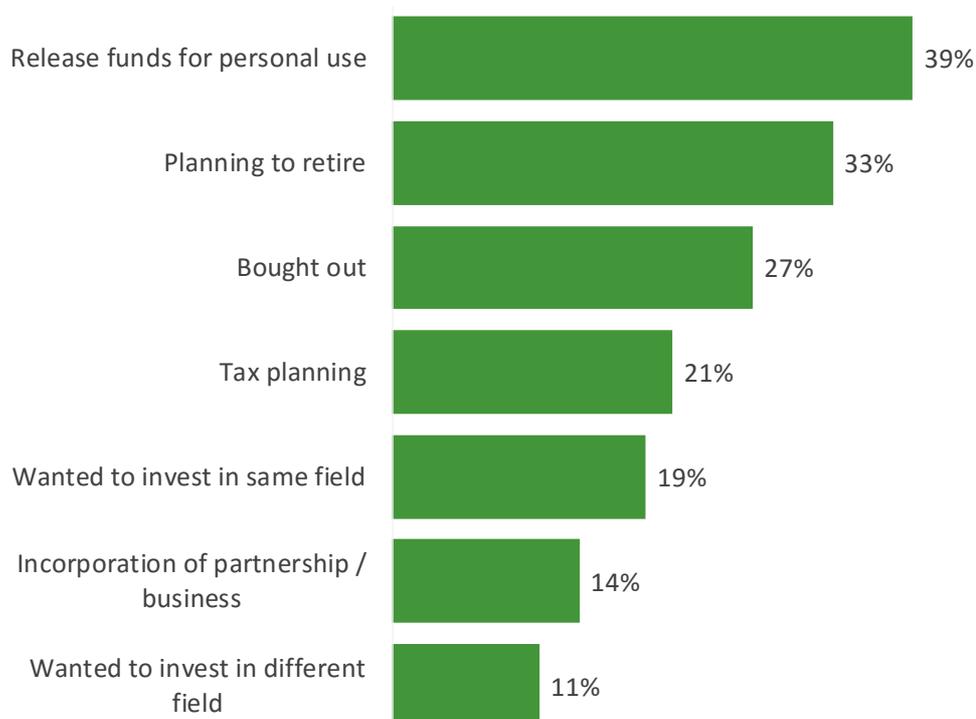


Source: C1: All group 1 (625)

¹⁶ Absolute figures show that seven individuals sold buy-to-let properties, two sold a personal asset used by the company, two sold furnished holiday lettings and one each sold property used for business purposes, personal property, or something else. In order for a gain (other than on shares) to be eligible for ER it must accrue on disposal of a business or part of a business, or (in certain circumstances) of an asset which has been used in a business. (In this context, 'business' means a trade, profession, or vocation.) Owning residential property does not usually entail a business in the required sense (for instance, buy-to-let activity may constitute a business but is not a trade), though property used as furnished holiday lettings or as accommodation for employees in a qualifying business may be eligible. We therefore expect a very low level of valid ER claims in respect of gains on residential property.

- 5.3 When customers stated that they had sold their business, in 75% of cases the business was still operating post-sale, and in 22% of cases the business was no longer operating. In 8% of cases, the business was still operating post-sale and the person still had some involvement with the business. Over half of the individuals who were still involved in the business held a Directorship (55%), of whom 34% described themselves as Director/Owner, 10% as Managing Director, 7% as Director with shareholding and 2% as each Non-Executive Directors and Part-time Directors. Just under one-fifth said that they were Employees (16%) of the business. Only a minority described themselves as Managers (7%), Consultants (6%), Shareholders (3%), and Partners (2%).
- 5.4 Individuals claiming ER reported that they sought to release funds for a variety of reasons. As shown in Figure 5.2, just over one-third did so for personal use (39%), one-third because they were planning to retire (33%), and a quarter as they were bought out (27%). Just under one-third (29%) of all Group 1 customers said they sought to release funds in order to invest again; one-fifth of these Group 1 customers wanted to invest in the same field (19%) and one-tenth (11%) wanted to invest in a different field.

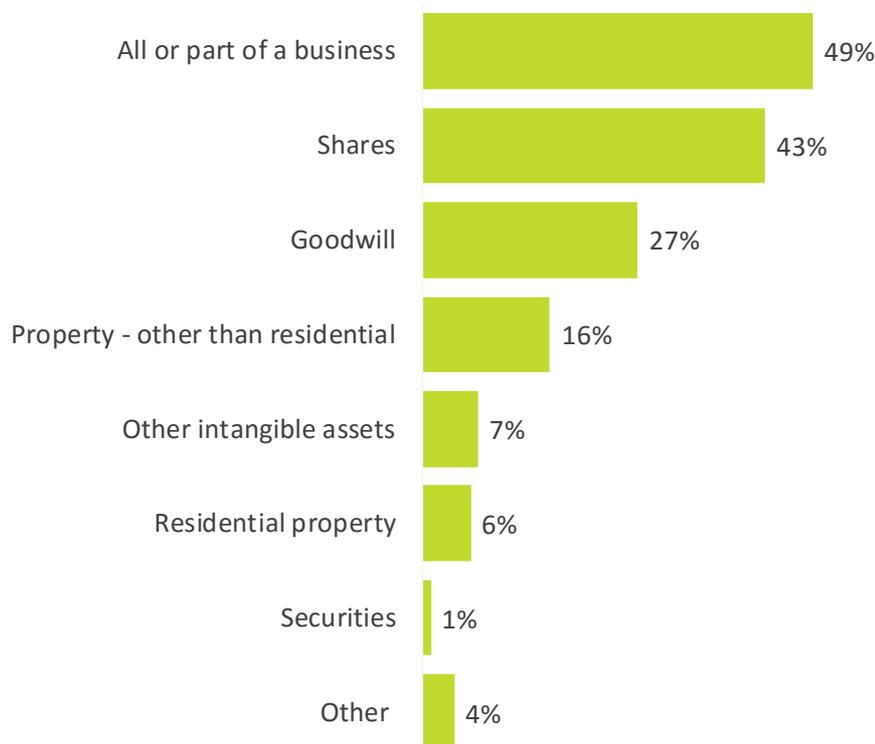
Figure 5.2 Reasons customers sought to release funds



Source: C2: All group 1 (625)

- 5.5 While a fifth took action for tax planning purposes (21%), only 2% mentioned this as their only reason for seeking to release funds. The most common reasons mentioned alongside tax planning purposes were similar to those reasons given overall, with 55% of Group 1 customers that gave tax planning as a reason reporting that they also wanted to release funds for personal use and around a quarter (28%) reporting that they were planning to retire. A slightly larger proportion (36%) mentioned wanting to invest in the same field as a reason alongside tax planning than those who reported this as a reason overall (19%).
- 5.6 Of Group 1 customers that stated they took a particular action because they were looking to reinvest (either in the same or a different field), 20% mentioned another reason alongside this. Most frequently mentioned other reasons included: tax planning (34%), looking to release funds for personal use (26%), and bought out by another company (24%).
- 5.7 Customers were asked about the assets they included in their ER claim, as shown by Figure 5.3. Around half cited 'All or part of a business' (49%), 43% mentioned 'Shares', a quarter mentioned 'Goodwill' (27%) and 16% mentioned 'non-residential property'. Customers were able to report multiple assets at this question, which were chosen from a read-out list. This means that there may be some overlap between some assets, such as Goodwill and Other intangible assets, which were both reported by a minority (5%) of customers. The mean values of these assets were £1.2million (all or part of a business), £1.1million (shares), £230,000 (goodwill), and £420,000 (non-residential property) respectively. Seven per cent also reported 'Other intangible assets' which had the highest average value at £1.4 million.

Figure 5.3 Assets included in ER claim



Source: C21: All group 1 (625)

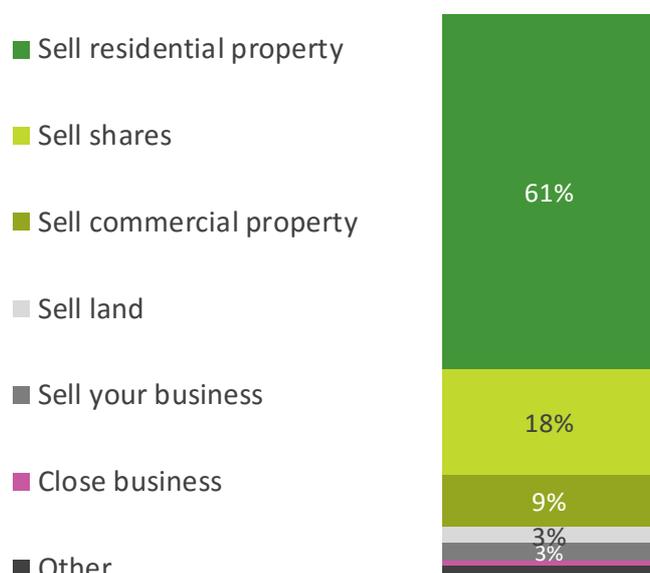
- 5.8 Most customers (91%) disposed only of the asset or assets that led them to claim ER at the time of the 'event'. Of the minority (9%) of customers who also disposed of other assets (not included in the claim), these most commonly included all or part of a business (4%), shares (3%), and residential property (1%).

- 5.9 Different types of asset were associated with different reasons for disposal, those disposing of property were more likely to be planning to retire (60% of those selling commercial property and 54% of those selling residential property were planning to retire, compared with 33% of all Group 1 customers). Those selling residential property were also more likely to be looking to release funds for personal use (55%).
- 5.10 In addition, those disposing of shares were more likely to be looking to release funds for personal use (46% of Group 1 customers selling shares compared with 39% of all Group 1 customers) or to be bought out by another company (39% compared with 27% of all Group 1 customers).
- 5.11 Group 1 customers who had goodwill as one of their assets in their ER claim were more likely to want to release funds on the occasion of an incorporation of a partnership or company (25% compared with 14% of all Group 1 customers) or to be releasing funds as part of tax planning (29% compared with 21% of all of Group 1).

Individuals that paid CGT at the full rate (Group 2)

- 5.12 As shown in Figure 5.4, three fifths of customers that paid CGT at the full rate but did not claim ER sold residential property (61%), a fifth sold shares (18%), while closer to a tenth said they sold commercial property (9%). Only a minority either sold land, sold their business or closed their business.

Figure 5.4 Event that led to paying CGT (Group 2)



Source: C1: All group 2 (603)

5.13 Of the 61% of individuals who had sold residential property, around two thirds sold a buy-to-let property (64%), 13% sold private/personal property, 9% sold inherited or gifted property, and smaller proportions sold a second/holiday home or a personal asset used by the company.

5.14 Based on these responses from customers, under half of customers that did not claim ER were owners of potentially eligible assets (44%). Owners of potentially eligible assets were defined as all Group 2 customers, except those whose liability to CGT was in respect of gains on residential property. This is likely to be a significantly larger group than those actually eligible to claim ER, as there are additional rules and restrictions on eligibility¹⁷. However, those who had sold residential property that fitted into the following categories were also classed as owning potentially eligible assets:

- Used in a 'furnished holiday letting business';
- A personal asset but used by a partnership / company you were a member or had shares in;
- Used for the purposes of a business, e.g. as a farmhouse or an employee accommodation

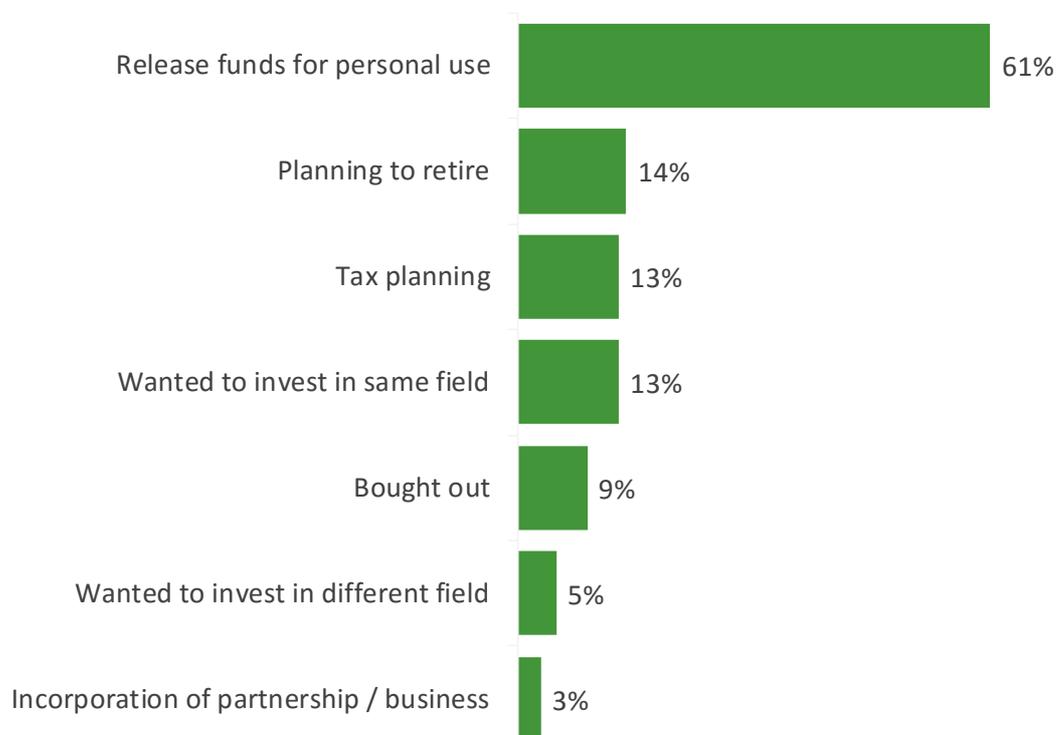
5.15 In terms of the motivations behind the sale, as Figure 5.5 shows, the majority made the disposal in order to release funds for personal use (61%).

¹⁷ See <https://www.gov.uk/entrepreneurs-relief/eligibility> for details

5.16 Although the demographic make-up of Group 2 customers was older than the other two groups, only 14% made the disposal because they were planning to retire. A smaller proportion was bought out (9%). Seventeen percent wanted to reinvest; 13% of these individuals wanted to reinvest in the same field and 5% wanted to reinvest in a different field.

5.17 While 13% cited tax planning purposes, as in Group 1, only a small proportion (3%) gave this as their only reason for selling assets. However, significantly more of these individuals had sold shares in their company (8%) than had sold residential property (2%). The most common reasons mentioned alongside tax planning purposes were similar to those reasons given overall, with 50% reporting that they wanted to release funds for personal use, around one-fifth (19%) as they were planning to retire, and one-fifth (19%) as they were looking to reinvest in the same field.

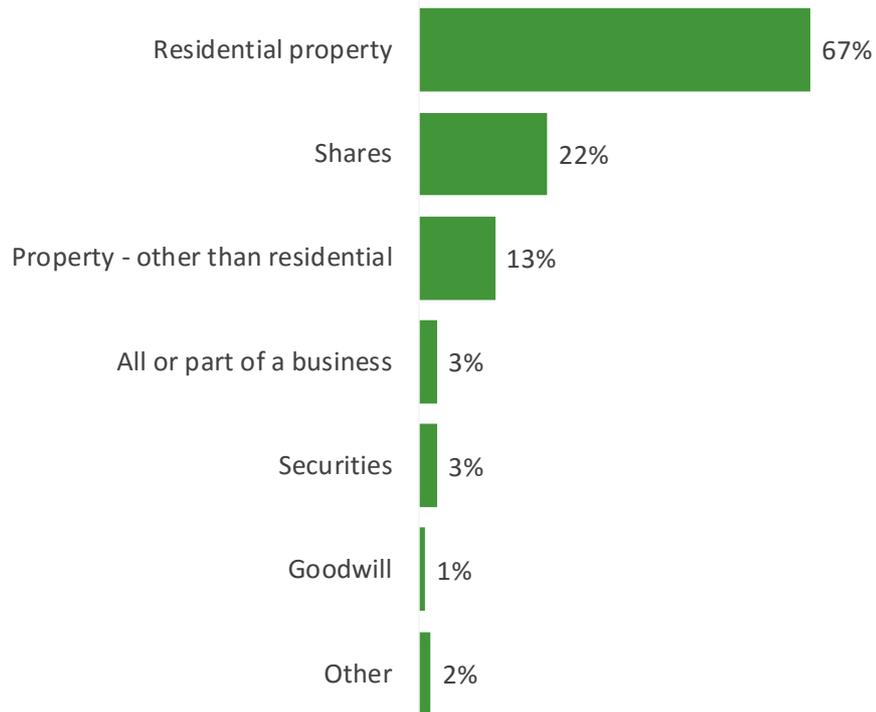
Figure 5.5 Reasons customers sought to release funds



Source: C2: All group 2 (603)

5.18 Customers were asked which assets were included in their CGT liability, as shown in Figure 5.6. The majority cited Residential property (67%), around a fifth Shares (22%) and 13% reported selling property which was not residential. The mean values of these assets were £300,000, £340,000 and £1.1million respectively.

Figure 5.6 Assets included in CGT liability



Source: C24: All group 2 (603)

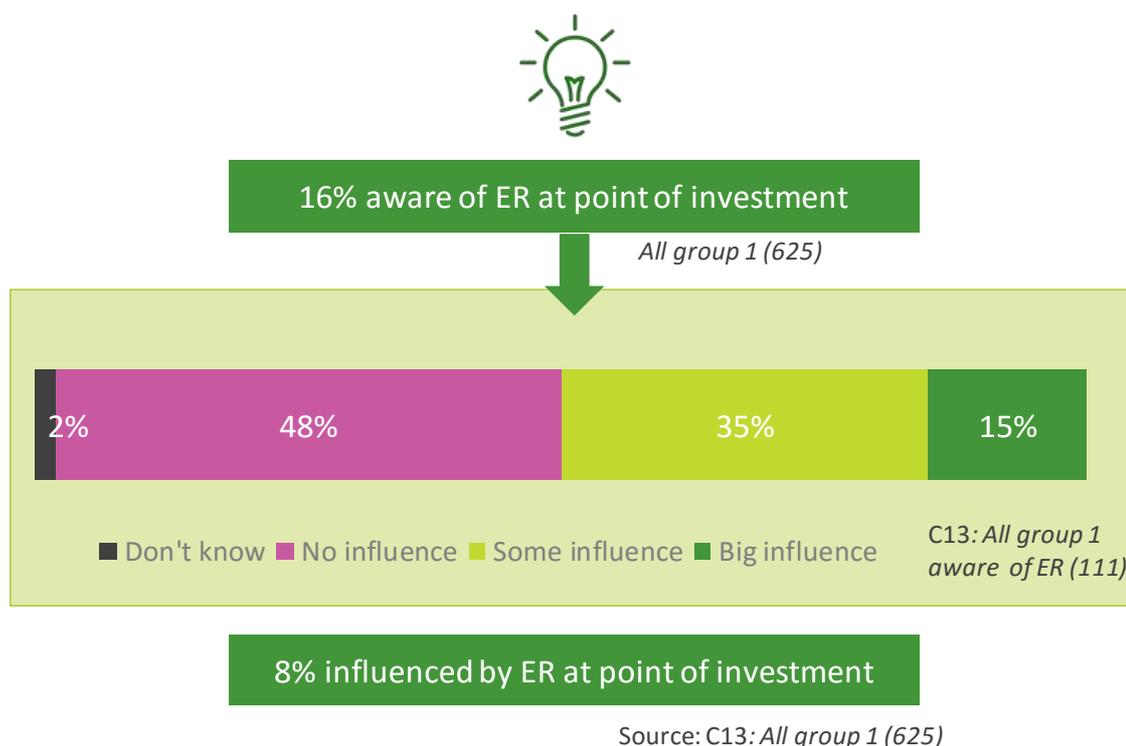
- 5.19 As with Group 1 customers, those disposing of residential property were more likely to be looking to release funds for personal use (67% of Group 2 customers who disposed of residential property). Group 2 customers disposing of shares were also more likely to state that they were looking to release funds for personal use (49%), were being bought out by another company (25%) or were disposing of shares as part of tax planning (22%).
- 5.20 When asked, most customers (93%) had only disposed of the asset that gave rise to their CGT payment at the time of the event, rather than disposing of any others at the same time.

6 How motivating a factor is Entrepreneurs' Relief (ER) to invest, sell assets, and reinvest?

Influence of ER on the decision to invest

6.1 As figure 6.1 shows, around one in six (16%) Group 1 customers were aware of ER when they initially invested in their business or asset¹⁸. Of these, half (50%) stated that their awareness of ER influenced their decision to invest (15% stated it had a big influence and 35% some influence). As a proportion of all Group 1 customers, one in twelve (8%) were influenced by the availability of ER at the point of investment.

Figure 6.1 Influence of ER at the point of investment



6.2 Figure 6.2¹⁹ summarises all the ways in which ER influenced the initial investment. Almost a third (32%) of Group 1 customers who were influenced by ER at this point stated that they were influenced because it was tax efficient compared to paying tax on income.

6.3 It was slightly more common for those that mentioned tax efficiency as a reason they were influenced by ER to mention it as the only way in which ER influenced their decision to invest (20%). A smaller proportion (13%) mentioned tax efficiency alongside other reasons. Overall, 3% of all Group 1 customers were influenced at the point of investment due to tax efficiency.

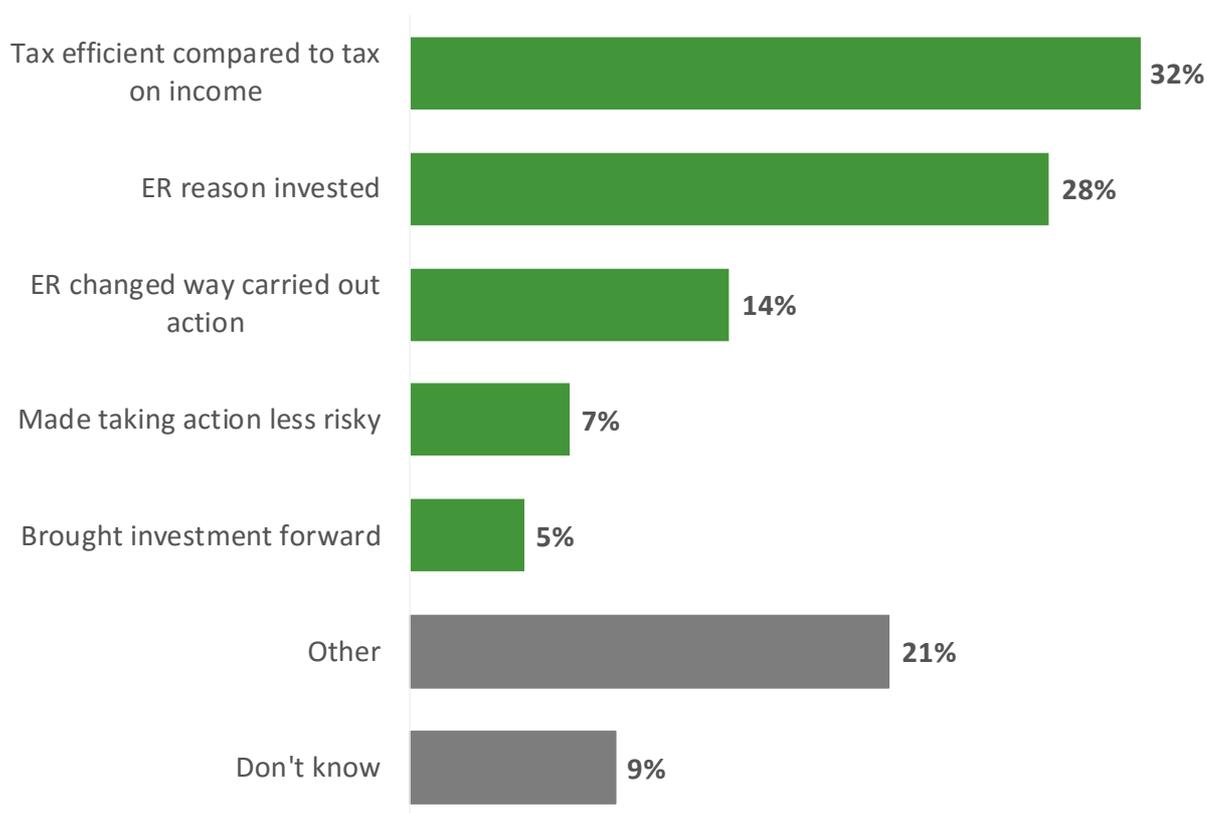
6.4 Just over a quarter (28%) of Group 1 customers who were influenced by ER at the point of investment stated that ER was the reason they invested, and 14% said that ER changed the

¹⁸ Note that some customers will have invested before ER was introduced in 2008.

¹⁹ Note that figures in paragraphs 6.2, 6.3, and 6.4 are based on a small number of responses (56)

way they did this. This included taking preparatory steps to secure the relief or changing the scale or type of investment.

Figure 6.2 How ER influenced decisions to invest



Base: Group 1 customers who were influenced at point of investment (56)

6.5 Group 2 customers, who paid the full CGT rate, were less aware of the availability of ER at the point of investment than Group 1 customers. A minority of these Group 2 customers (7%) were aware of ER, and of those that were aware, only one in ten (9%) stated that it influenced their decision to invest.

6.6 Both Group 1 and Group 2 customers who were aware of Taper Relief were asked more generally, rather than specifically in relation to their disposal, if the availability of it had influenced their decision to invest in a new or existing business at any point, because Taper Relief provided a similar effective rate of CGT on qualifying disposals, prior to the introduction of ER. Over one in twenty (7%) Group 1 customers stated that Taper Relief had an influence on decisions to invest (1% big influence and 6% some influence). Whereas only 3% of Group 2 customers stated that it had an influence on investment decisions (less than 1% big influence and 2% some influence). The 7% of Group 1 customers influenced by Taper Relief was largely made up of the same individuals who stated that they were influenced by ER (8%) at the point of investing in the business / asset discussed in the survey.

6.7 Group 3 customers were also asked if the availability of ER or its predecessor Taper Relief had an influence on their initial decision to invest in their current assets. Eleven percent of Group 3 customers who were aware of ER, or Taper Relief, at the time of the interview stated that it had an influence (3% big influence, 8% some influence). Overall, 2% of Group 3 customers were influenced by their awareness of ER/Taper Relief when they acquired their assets.

What behaviours best predicted how influential ER is at the point of initial investment among ER claimants (Group 1)?

6.8 The survey data was also used to better understand what behaviours predict how likely individuals are to be influenced by ER at the point of initial investment. To achieve this aim, multinomial analysis was undertaken. This is a statistical modelling technique, designed to determine which factors (i.e. questions/variables) are most likely to predict answers to questions where there are multiple categories (in this case degrees of influence of ER)²⁰.

6.9 The model showed that the behaviours which best predict how influenced individuals might be by ER at the point of initial investment centred around:

- Whether they still had involvement in the business (those that are not involved, are more likely to have been influenced by ER);
- Whether they were bought out by another company;
- Whether the assets included commercial property or not (where assets **did not** include commercial property, people were **more likely** to have been influenced by ER);
- Whether they received support from advisers when they made their ER claim;
- Whether the assets included Goodwill or not (where assets **did not** include Goodwill, people were **more likely** to have been influenced by ER); and
- Whether they were looking to set up a new business in the same field.

6.10 In summary, the model has shown that those individuals most likely to be influenced by ER at the point of investment were those who, at the time of the interview, no longer had involvement in the company, were intending to set up a new business in the same field and had been receiving professional advice. **This may suggest that ER is influencing some people to invest who later look to re-invest in new entrepreneurial activities**

6.11 The model also showed that the type of asset included in the ER claim also had a role in predicting the influence of ER (where ER claims **didn't include** Commercial Property and Goodwill, people were more likely to have been influenced by ER at the point of initial investment.)²¹

²⁰ More details on the technique are included in the technical appendix

²¹ There was a strong but negative relationship between whether commercial property/goodwill were included in the assets and likelihood to be influenced by ER.

6.12 The details of the model are shown in the table below. The percentages shown in the table relate to the 'importance' or 'strength' of each factor in the model and not to individual responses from individuals in the survey.



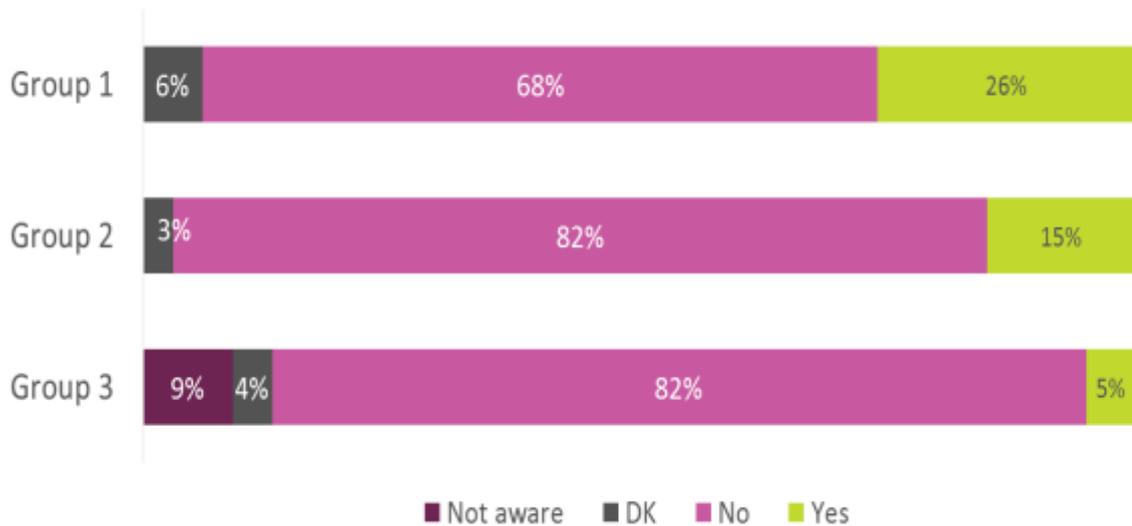
What best predicts influence of ER at the point of initial investment?

	Importance in the model	Variable/question
Do not currently have any involvement in the business (disposed of)	24%	Current involvement in the business (C4)
Bought out by another company	16%	Why sought to dispose of assets (C2)
Assets did not include commercial property	11%	Assets included (C21)
Received support or advice from advisers, agents or third parties when making the ER claim	9%	Whether advisers used (A3)
Assets did not include Goodwill	8%	Assets included (C21)
Was looking to reinvest in the same business / set up another business in the same field	7%	Why sought to dispose of assets (C2)
Was not planning to retire	7%	Why sought to dispose of assets (C2)
ER was the reason action was taken	7%	Impact of ER (C10)

Influence of CGT rates in business decisions

6.13 As figure 6.3 shows, just over a quarter (26%) of Group 1 customers stated that the difference between the rate of CGT compared with other taxes, such as income tax, had influenced their business decisions. This was less often the case with Group 2 customers (15%) and only a minority (5%) of Group 3 customers felt that the difference in tax rates had influenced their business decisions.

Figure 6.3 Influence of the difference in CGT rates compared with other taxes



Source: C17c All customers / groups (1,700); Group 1 (625), Group 2 (603), Group 3 (472)

6.14 Table 6.1 shows the most frequently mentioned ways in which business decisions were influenced by the difference between CGT rates and other taxes. There were no significant differences by customer group in terms of how the difference between CGT and other tax rates had influenced business decisions.

Table 6.1 How each group's business decisions were influenced by the difference between CGT rates and other taxes²²²³

<i>Base: all where difference in rates has influenced business decisions/Base: all</i>	Group 1 customers influenced by the difference between CGT rates and other taxes (169)	Of all Group 1 (625)	Group 2 customers influenced by the difference between CGT rates and other taxes (91)	Of all Group 2 (603)
Influenced decisions to ensure pay as little tax as possible (part of tax planning and efficiency)	29%	8%	25%	4%
Influenced business decisions to get better returns	14%	4%	14%	2%
Influenced the way the company was structured	15%	4%	8%	1%
CGT rates and allowances are more favourable	13%	3%	11%	2%
Being aware of CGT rates just means that it is a consideration in business decisions	8%	2%	14%	2%
Stopped us from selling and encouraged more investment in current business	8%	2%	12%	2%
Influenced the sale / closure	8%	2%	11%	2%

²² Group 3 are excluded from the table due to a very low base size (23).

²³ Only responses given by over 5% of customers in at least one of the groups shown and customers could give more than one response.

6.15 Those that disposed of their business in order to reinvest in the same field or on incorporation of a business / partnership were more likely to state that the difference between CGT rates and other tax rates impacted the way the company was structured (23% and 28% respectively). Contrastingly, those that disposed of their business for personal use were more likely to state that it influenced their decisions to get better returns (21%).

6.16 When explaining further how the rate of CGT impacted business decisions, specifically in relation to tax efficiency, customers highlighted that they simply take advantage of the differences in the tax rates so they pay the least possible, specifically mentioning income tax.

“Quite a lot. I'd want to be as tax efficient as possible.”

Group 1

“Depends on what was the most tax efficient way to account for the income and assets within the law.”

Group 1

“Make a logical decision and decide what is the most tax efficient chose at the time.”

Group 2

“Advantageous level of tax, I'm always looking to make the most tax efficient decisions for my business”

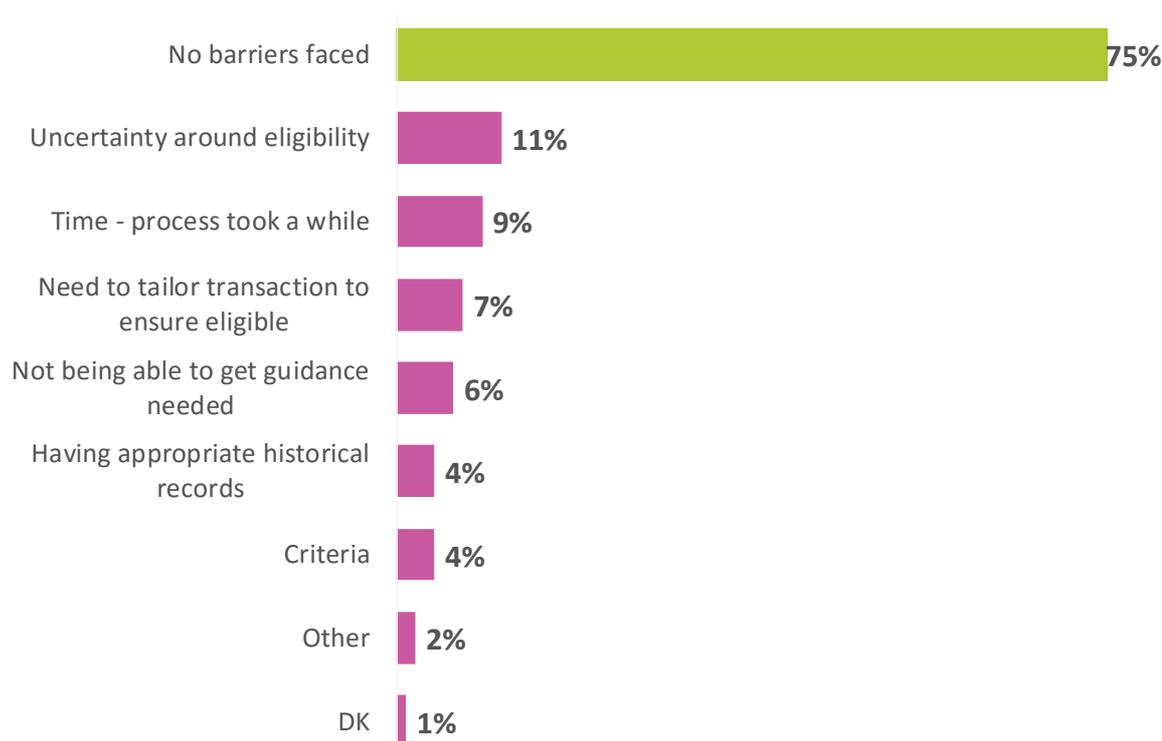
Group 2

6.17 Only a minority of customers who mentioned tax efficiency gave more detail of exactly how this was considered in their business decisions, for example, that it encouraged them to sell certain assets or indeed hold on to them for longer due to eligibility for reliefs.

“In the past, I mostly would have considered selling properties when the CGT [changes] rates are low and the [rate of] Taper Relief is low... instead, we keep properties and not dispose and CGT was a major factor in that.”

Group 3 - The process of claiming ER

6.18 As Figure 6.4 below shows, three-quarters (75%) of Group 1 customers faced no barriers when making their ER claim. The most frequently mentioned barriers faced by the remaining Group 1 customers centred mainly on uncertainty around eligibility (11%). Other barriers included the process taking a while (9%), that there was a need to tailor the transaction to ensure they were eligible (7%), and not being able to get guidance needed (6%).

Figure 6.4 Barriers faced by group 1 customers when making their claim

Base: C23: Group 1 (625)

6.19 There were differences in the barriers customers faced, dependent on the extent to which agents supported them. Overall, Group 1 customers that were fully supported by agents were less likely to have faced barriers (17%) than those that had an agent deal only partly with the process were more likely to have faced barriers (51%). Specifically, those that had an agent deal partly with the process were more likely to have faced:

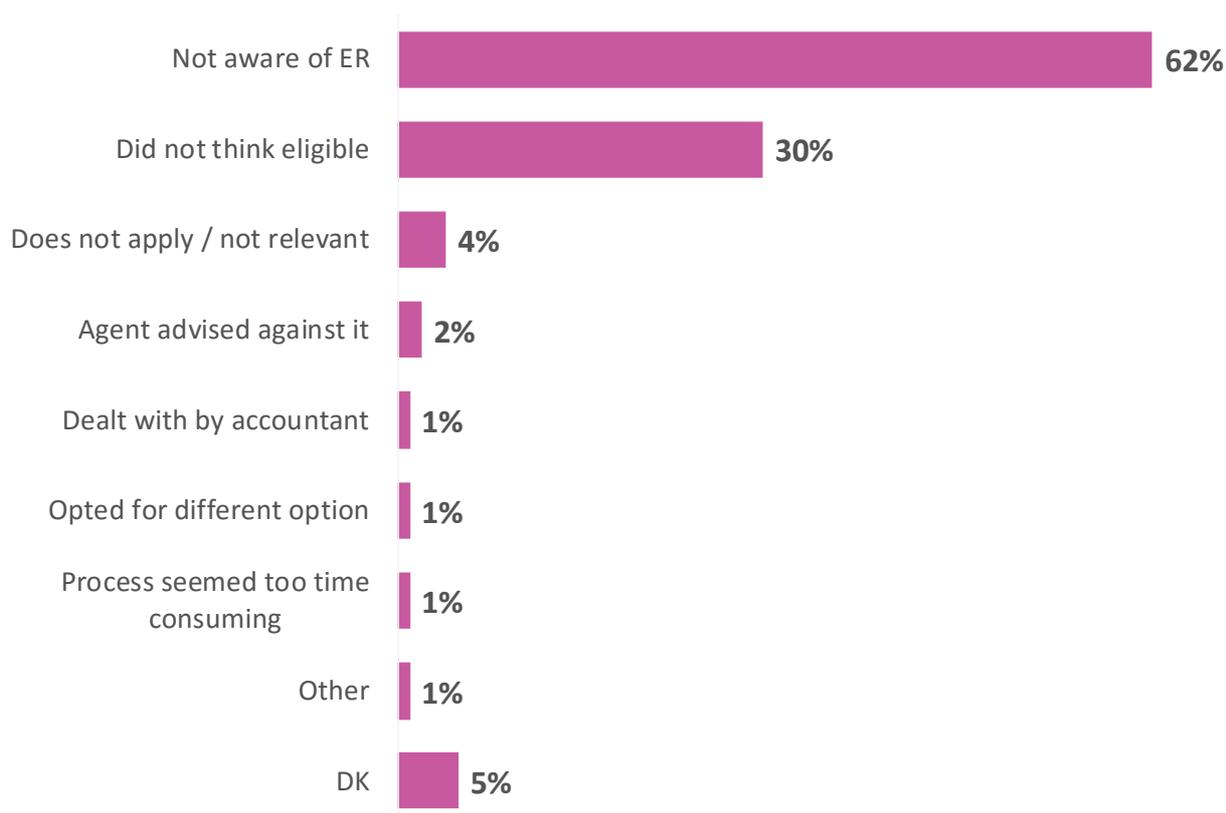
- Uncertainty around eligibility (29%);
- Time – process took a while (20%);
- Need to tailor the transaction(s) to ensure ER was available (18%);
- Not being able to access guidance/get advice from HMRC (17%);
- Criteria (including the 5% shareholding threshold) (12%).

6.20 Focusing on specific barriers, where shares were included in customers' ER claims, they were more likely to mention that they had uncertainty around eligibility (11%), that they had a need to tailor the transaction to ensure they were eligible (10%) and that criteria, including the 5% shareholding threshold, were barriers (8%).

6.21 Group 1 customers who mentioned tax planning, alongside other reasons, were more likely to have faced barriers (32%) and the type of barriers they were more likely to face included uncertainty around eligibility (17%), need to tailor the transaction to ensure they were eligible (15%), the time the process took (13%) and having appropriate historical records (9%).

6.22 As Figure 6.5 below shows, customers that had not claimed ER (Group 2) were asked why they had not claimed. Almost two-thirds (62%) of Group 2 customers stated that they did not claim because they were unaware of ER at the point in which they disposed of the asset. Similarly to Group 1, eligibility and uncertainty was a common theme. The second most commonly mentioned reason for not claiming was not thinking that they were eligible (30%). Although there is not conclusive evidence from this survey to show which Group 2 customers would have been eligible for this relief had they claimed

Figure 6.5 Group 2 customer reasons for not claiming ER



Base: C26: Group 2 (603)

6.23 Certain types of Group 2 customers were more likely to give the reason that they were not aware of ER as the reason why they did not claim:

- Those that sold residential property (67% of these customers gave this reason);
- Those that disposed of their asset as they wanted to release funds for personal use (66%);
- Female customers (75%); and
- Customers aged 65 or over (67%).

6.24 There were also some types of Group 2 customers that were more likely to give the reason for not claiming as they did not think they were eligible:

- Those who took the action because they were bought out (51%);
- Those who sold shares (48%);
- Those with a lot / some knowledge of ER (68%);
- Those with a lot / some knowledge of Taper Relief (54%); and
- Those who received no support from agents (38%).

6.25 Customers from Group 2, who paid the full rate of CGT, were categorised as to whether they were owners of potentially eligible assets or not²⁴. Just under half (44%) of Group 2 customers were categorised as owners of potentially eligible assets, although not all of them may be actually eligible to claim ER due to other eligibility rules²⁵.

6.26 It should be noted that this figure is a broad estimate based on responses given by Group 2 customers during the survey; it does not account for holding periods, size of shareholding, or officer/employment status, and therefore is likely to be an overestimate of the rate of ER eligibility.

²⁴ Owners of potentially eligible assets were defined as all Group 2 customers, except those that were liable to pay CGT on residential property. However, those who had sold residential property that fitted into the following categories were also classed as owning potentially eligible assets:

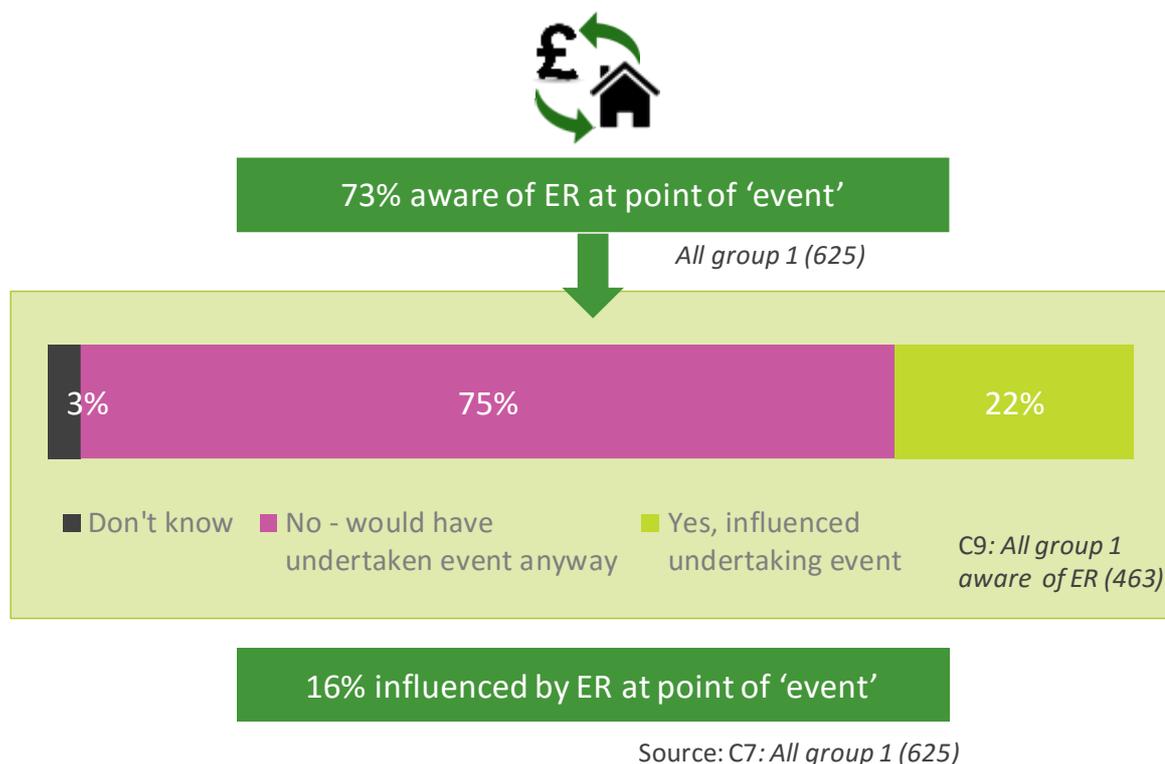
- Used in a 'furnished holiday letting business';
- A personal asset but used by a partnership / company you were a member or had shares in;
- Used for the purposes of a business, e.g. as a farmhouse or an employee accommodation.

²⁵ <https://www.gov.uk/entrepreneurs-relief/eligibility>

Decision to dispose of assets – the 'event'

6.27 At the point of the 'event', almost three-quarters (73%) of Group 1 customers were aware of ER, and of these, just under a quarter (22%) were influenced by the availability of ER, or its predecessor Taper Relief, in making the decision to dispose of assets. This equates to one in six (16%) Group 1 customers being influenced by ER or Taper Relief when deciding to dispose of their assets or business. Figure 6.6 below shows the influence of ER/Taper Relief at the point of the event.

Figure 6.6 Influence of ER at the point of the 'event'



6.28 Where ER influenced individuals at the point of the 'event', the effect ER had on decisions regarding the disposing of assets mirrored the influence it had on the decision to make the initial investment. The most frequently mentioned way in which ER affected the decision to dispose of assets was that it was perceived to be tax efficient compared to paying tax on income (35%). Again, as at the point of investment, where tax efficiency was mentioned by Group 1 customers it was more often mentioned as the only way in which ER affected their decision making at the point of disposal. (24%). Just over one in ten mentioned tax efficiency alongside other ways (11%). Overall, 6% of Group 1 customers mentioned the tax efficiency of ER at the point of the 'event'.

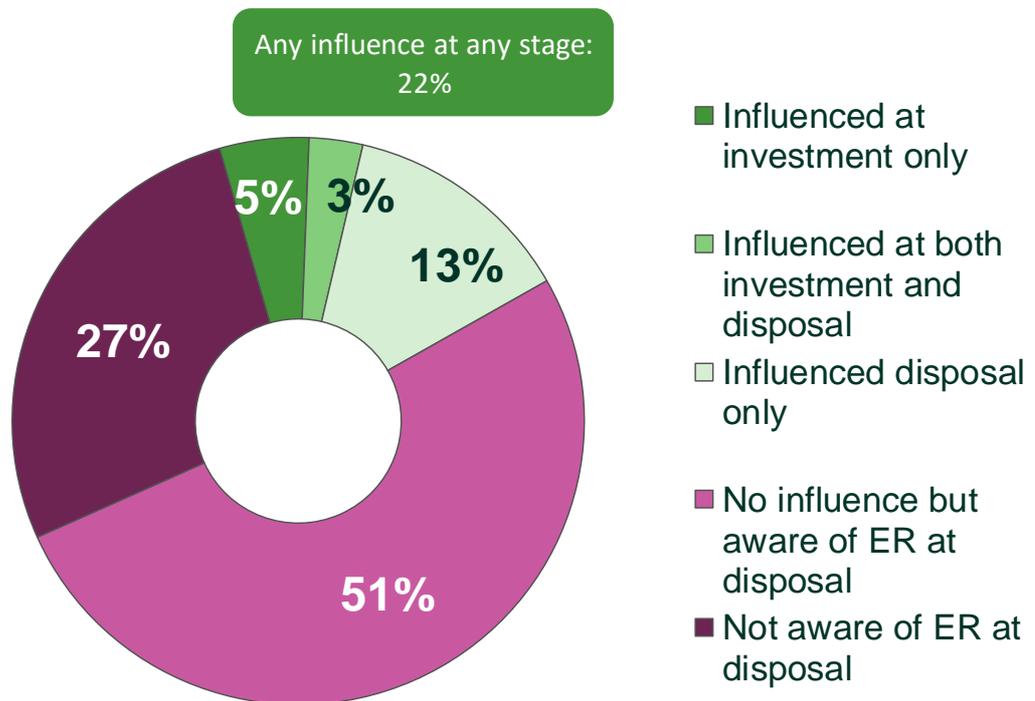
6.29 A quarter (24%) of Group 1 customers that were influenced when disposing of assets stated that ER was the reason for disposal and just over a fifth (22%) stated that it changed the way they carried out the action. One-sixth (16%) of Group 1 customers who said that ER influenced their decision at the point of disposal stated that it meant they disposed of the asset or business sooner than they would have. Other ways in which knowing about ER influenced decision-making at the point of disposal were mentioned by a small minority (1%) included that they disposed of the asset later than they otherwise would have and that ER made the disposal less risky.

When was ER most likely to influence decision-making?

6.30 Overall, over a fifth (22%) of Group 1 customers were influenced by ER, or its predecessor Taper Relief in their decision making, either at the initial investment stage, the disposal stage, or both.

6.31 As Figure 6.7 shows, ER was more likely to influence decisions at the disposal stage than at the point of investment, almost one in eight (13%) Group 1 customers were influenced at only the point of disposal, whereas one in twenty (5%) were influenced at the point of investment only. There was a minority (3%) of Group 1 customers that were influenced at both the point of investment and disposal. However, some respondents may have invested before ER was introduced.

Figure 6.7 Timing of the influence of ER on Group 1 customers²⁶



Base: All group 1 (625)

Understanding the types of customers influenced by ER

6.32 Group 1 customers who were disposing of an asset worth over £1 million were more likely to be influenced at both points by ER, 12% of those with assets worth over £1 million stated that ER influenced them at both the investment and disposal stage. A similar proportion (13%) of these Group 1 customers were influenced at the point of investment only and a quarter (25%) of Group 1 customers with assets worth over £1 million stated they were influenced at the point of disposal only²⁷.

²⁶ The total influenced at any stage is 22%, rather than 21% due to rounding.

²⁷ Note that the figure of £1 million or more is self-reported by these customers, rather than the value held on HMRC's database.

6.33 There were some further differences in the profile of Group 1 customers who were influenced at each point in the process. Of all of Group 1 customers, 5% were influenced at the point of investment only. This group was made up of the following:

- Younger customers (33% were under 45)
- More knowledgeable (80% had lot / some knowledge of ER, 85% had a lot / some knowledge of CGT and 39% had a lot / some knowledge of Taper Relief);
- To have only used agents for advice, (22% had only used agents for advice, rather than have their agents deal with the process);
- More likely to be customers selling some shares in their company (70%), and the assets they were selling at disposal were more likely to be worth over £1 million (26%).

6.34 Of all Group 1 customers, 13% were influenced at the point of disposal only. Those that made up this group tended to be disproportionately:

- Those that were selling their business (52%);
- Customers that disposed of their asset or business to release funds for personal use (49%) or due to incorporation of a business or partnership (27%);
- Disposing of assets including goodwill (39%) and other tangible assets such as registered trademarks (13%);
- Customers with assets of a higher value (30% had assets worth over £500,000);
- Aged 45-54 (43%);
- Full-time employed at the time of the survey (54%).

6.35 Of all Group 1 customers, 51% were not influenced by ER at any point., Those who were not influenced at any point tended to be disproportionately:

- Those who disposed of their asset or business because they were planning to retire (37%);
- Disposing of shares in their company or business (48%);
- Less knowledgeable about ER and Taper Relief (40% and 46% respectively had a little or no knowledge);
- More knowledgeable about CGT (63% had a lot / some knowledge).

7 Influences on future decisions

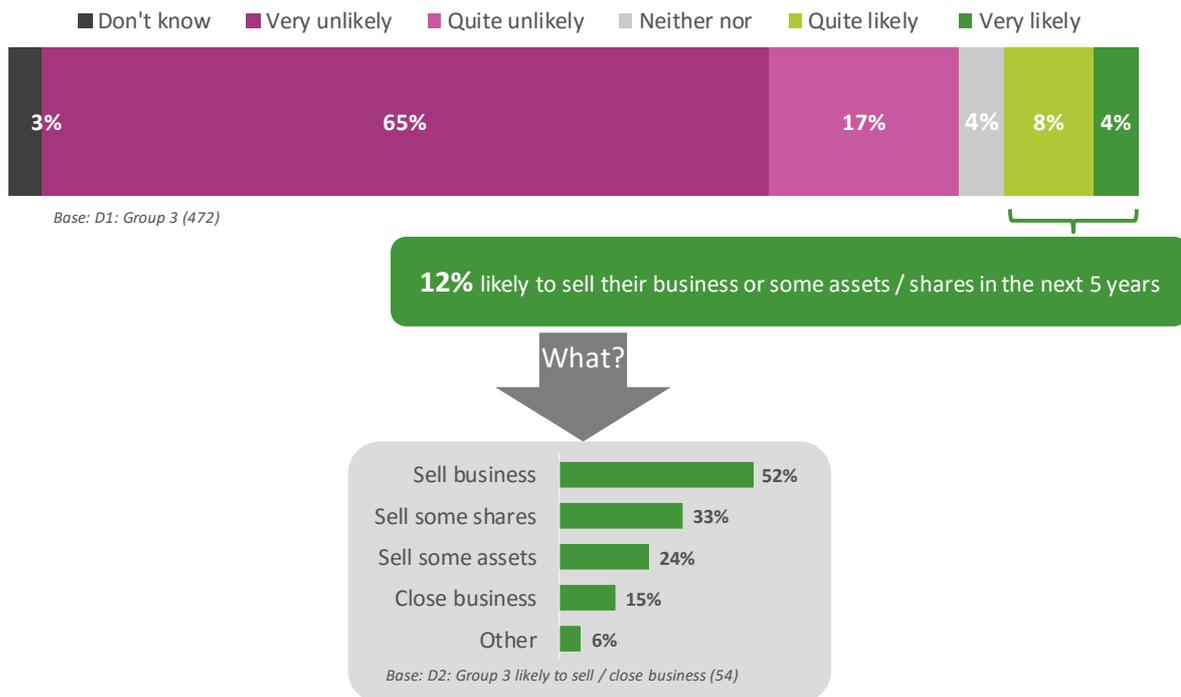
Likely future action amongst individuals that had not paid CGT/claimed ER (Group 3) in the previous five years

Likelihood of Group 3 customers to sell business or other assets

7.1 Most Group 3 customers said that they were not likely to sell their business or other assets over the next 5 years. However, 12% said they were likely to sell assets (8% said they were 'fairly likely' and 4% said they were 'very likely'). Customers over 65 were more likely than average to say they were likely to sell assets over the next 5 years.

7.2 Individuals that said they were likely to sell assets over the next 5 years were asked what they were planning to sell or change. Around half (52%) said they were likely to sell their business, a third (33%) said they were likely to sell shares, a quarter (24%) assets used by the business, and 15% said they were likely to close their business over the next 5 years. Figure 7.1 below shows these results.

Figure 7.1 Proportion of group 3 customers reporting how likely or unlikely they are to sell their business, shares or other assets over the next 5 years



7.3 Those customers who said they were likely to sell assets over the next 5 years were also asked why they planned to do this. The two most common answers were that they were likely to sell because they were due to retire (57%) and because they wanted to release capital from the business (56%). There was some overlap here, with around one-third of customers giving both

of these reasons. Smaller proportions said they were selling because they wanted to reinvest (30%), or they were selling for tax efficiency purposes (28%)²⁸.

Likelihood of Group 3 customers to claim ER in the future

- 7.4 All Group 3 customers were asked whether, if they became eligible to claim ER in the future, they would consider claiming it²⁹. Most Group 3 customers (70%) said that they would consider claiming ER. Focussing specifically on the 12% who said they were likely to sell assets over the next 5 years, the proportion who would consider claiming ER increased to 91%.
- 7.5 A minority (12%) of Group 3 customers said they would not consider claiming ER in the future, even if they became eligible. When asked why, answers often focussed on uncertainty regarding the process - on what ER is exactly, on how to go about claiming, and around not knowing how long the process would take (in particular that they assumed the process would be time consuming). A small number of customers were adamant that they would never be eligible, and so despite the question asking them to imagine a position of eligibility, they felt they could not answer from this perspective.

Future influence of ER on Group 3 customers

- 7.6 All Group 3 customers were asked whether ER would influence any future decisions to close or sell their business or assets, or invest in new ones³⁰. Sixteen per cent of Group 3 customers said that a knowledge of ER *would* influence their behaviour in this way. This is similar to the 22% of group 1 customers who reported that ER influenced their decision either at the point of investment or disposal (although some Group 1 respondents may have invested before ER was introduced).
- 7.7 When asked *how* ER would influence them, two in five (41%) said that ER would result in them investing in assets, and a third (30%) that ER would result in them disposing of assets. Other ways in which ER would influence decisions included that it would change the timing of their investment or disposal: 46% of all Group 3 customers who may be influenced by ER in the future said they would take action sooner, and 24% that they would take action later³¹.

Influence of other tax changes on future business decisions amongst those that have claimed ER (Group 1) and those that have paid the full rate of CGT (Group 2)

- 7.8 Individuals that had claimed ER (Group 1), and those that had not claimed ER and so had paid the full rate of CGT (Group 2), were asked whether they were aware of a number of recent changes to certain tax rates and reliefs:
- changes to Corporation Tax rates;

²⁸ The individuals who said they were selling for tax efficiency purposes gave no further detail on what this entailed, as this was simply one of a pre-coded list of options that they chose.

²⁹ ER was explained before this question was asked, so those who did not know what it was at the beginning of the survey had knowledge of it when asked this question

³⁰ This question was a bit more involved than simply whether the customer would consider claiming ER in the future if they were eligible; it asked whether their knowledge of ER would actually change their future investing or disposal behaviour.

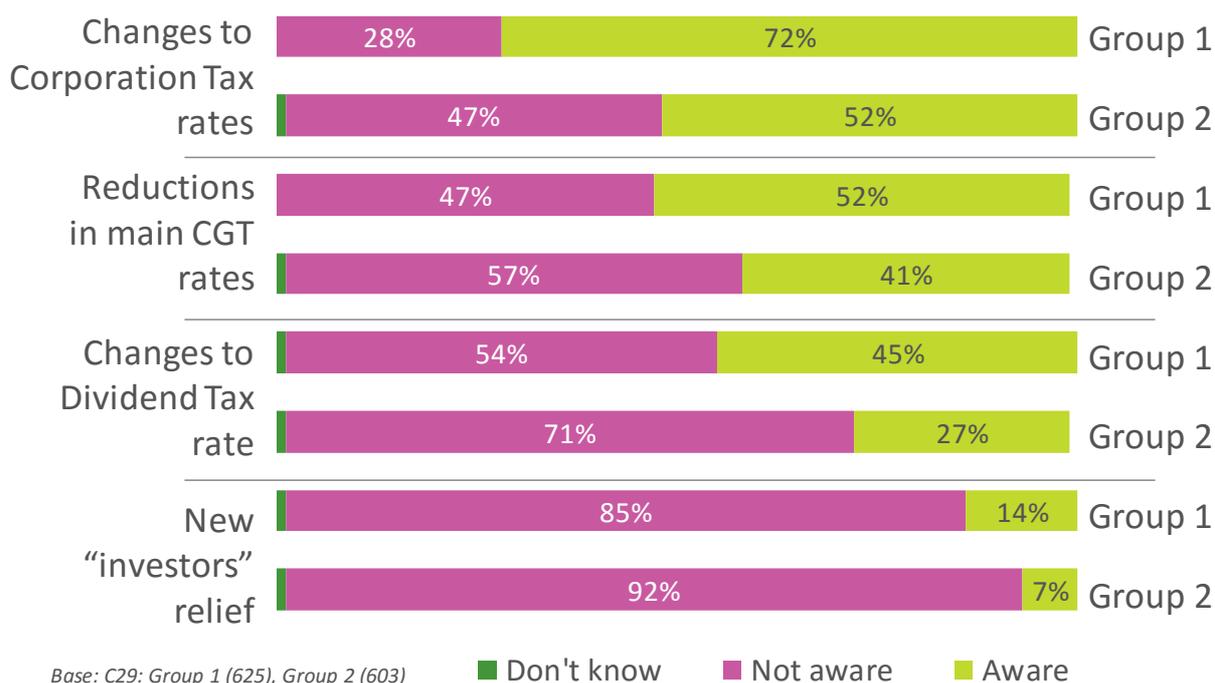
³¹ This was a question where customers could give multiple responses.

- reductions in main CGT rates;
- changes to the dividend tax rate; and
- new 'Investors' Relief'³².

7.9 Customers who had claimed ER (Group 1) were consistently more likely to be aware of each change than those that had not claimed ER and so had paid the full rate of CGT (Group 2). This was also the case when individuals from Group 1 and Group 2 were asked how much they knew about a list of current taxes and reliefs, i.e. those that had claimed ER were more likely to know more about each tax, than those that had not (these results are shown in Chapter 4 of this report).

7.10 It was most common for customers to be aware of the Corporation Tax rate changes (72% amongst Group 1 and 52% amongst Group 2), and then the reductions in main CGT rates (52% amongst Group 1 and 41% amongst Group 2). Fewer were aware of changes to the dividend tax rate (45% and 27%), and it was least likely that they would be aware of Investors' Relief (14% and 7%). Figure 7.2 shows these results.

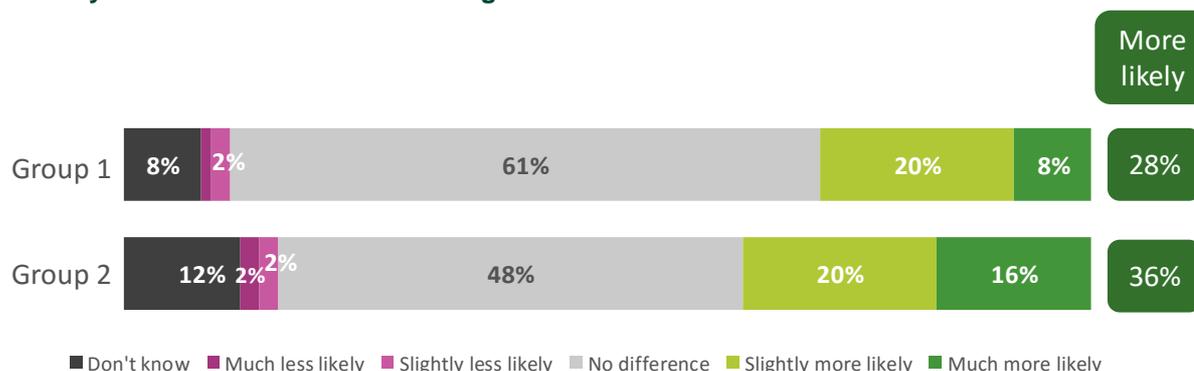
Figure 7.2 Awareness of recent changes to tax rates and reliefs amongst group 1 and 2 customers



³² New "investors' relief" for cash subscribed for new shares; this is similar to Entrepreneurs' relief but means that individual external investors in unlisted companies, holding the shares for at least 3 years, can now pay 10% CGT on disposal

7.11 Customers in Groups 1 and 2 were asked whether these changes in rates and reliefs would make them more or less likely to take action, such as closing, selling, or restructuring business or assets, that would make them eligible to claim ER in the future. In the majority of cases, 61% of Group 1 and 48% of Group 2, these changes would make no difference in this regard. However, around a third of each group said that these changes *would* make them either very or quite likely to take action that would make them eligible for ER. Figure 7.3 shows these results.

Figure 7.3 Proportion of customers saying whether the tax changes make it likely or unlikely that they will take action to become eligible for ER



Base: C30: Group 1 (625) and Group 2 (603)

7.12 There were certain subgroups of Group 1 who were more likely to state that they would be much more likely to take action to become eligible for ER:

- Those that took action as they were looking to reinvest in the same field (14%);
- Those that sold shares as an asset in their ER claim (12%);
- Those that were influenced by ER at the point of disposal (15%);
- Those that were aware of the change to Corporation Tax (10%);
- Those that were aware of the new Investors Relief (16%);

7.13 There were also certain customers within Group 2 who were more likely to state that they would be much more likely to take action to become eligible for ER:

- Those that sold residential property (19%);
- Self-employed customers (24%).

8 Conclusions

Motivations for investing and disposal among individuals who had claimed ER (Group 1)

- 8.1 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.
- 8.2 Of ER claimants, 73% were aware of ER at the point at which they sold / closed the business or asset. Awareness was much lower at the point of initial investment (16%), though some respondents may have invested before ER was introduced.
- 8.3 The primary reasons given for disposal among ER claimants (Group 1) were personal use of funds thereby released (39%), the claimant's intention to retire (33%), the claimant's intention to release funds in order to invest again (29%) and being bought out (27%). A fifth (21%) took action for tax planning purposes, although only 2% cited this as their sole reason for disposing of their assets.
- 8.4 A fifth (22%) of customers that had claimed ER (Group 1) reported that ER influenced their decision either at the point of investment or disposal, or potentially at both points. It was more common for them to be influenced at the disposal stage (16% influenced at this point) than the initial investment stage (8%), though again some respondents may have invested before ER was introduced.
- 8.5 Around a third of Group 1 customers who were influenced by ER to invest or dispose of their business / assets were influenced due to tax efficiency of CGT compared with tax on income. In addition, this was more often given as the only way in which ER influenced their decision, rather than alongside others.
- 8.6 Indeed, a quarter (26%) of individuals that had claimed ER (Group 1) reported that their business decisions were affected by the rate of CGT when compared to other taxes such as Income Tax. Most commonly, these customers mentioned ensuring they paid as little tax as possible (as part of tax planning and efficiency).
- 8.7 Amongst individuals that had claimed ER (Group 1) around a third (30%) disposed of the asset in order to release capital for reinvestment. Amongst the proportion (16%) of individuals that said they were influenced by ER to dispose of their asset, this proportion was broadly the same. This meant 7% of all of Group 1 customers were influenced by ER when they were releasing capital to reinvest. It was more common for individuals in Group 1 who claimed ER to plan to reinvest in the same field (19%) than invest in a different field (11%).

Barriers to claiming ER

- 8.8 The majority of customers that claimed ER did not experience any barriers to claiming the relief (75%). The largest barrier amongst those Group 2 customers who did not claim ER, was lack of knowledge – either lack of knowledge that ER exists, or lack of knowledge about what makes individuals eligible and how to claim. Although there is no conclusive evidence from this survey to show which of these Group 2 customers would have been eligible had they made a claim, or to what extent customers saw the statutory conditions for relief as 'barriers' to claiming.

What behaviours best predicted how influential ER is at the point of initial investment?

- 8.9 Statistical analysis of the data has shown that those most likely to have been influenced by ER at the point of initial investment were those who, at the time of the interview, no longer had involvement in the company, were intending to set up a new company and had been receiving professional advice. **This may suggest that ER is influencing some people to invest who later look to re-invest in new entrepreneurial activities**

Influence of ER on future business decisions

- 8.10 Amongst Group 3 individuals who had not paid CGT or claimed ER in the last 5 years, 16% said that ER *would* influence their decision to sell or close their business in the future, which was comparable to the proportion of those who had claimed ER and said ER had influenced their decision. In terms of how ER may influence them, two in five (41%) said that ER would result in them investing in assets, and a third (30%) that ER would result in them disposing of assets.
- 8.11 Most individuals that had claimed ER said that recent business tax changes announced in the Budget in 2015 and 2016³³ would make 'no difference', in terms of whether they would take action to make themselves eligible to claim ER in the future.

³³ The business tax changes asked about in the questionnaire were:

- Changes to the dividend tax rate: now between 7.5% and 38.1% depending on amount of taxable dividend income
- Changes to Corporation Tax rates; it has been cut from 28% in 2010 to 20% with plans for it to be cut to 17% in 2020
- Reductions in the main CGT rates; from April 2016, higher rates of CGT were cut from 28% to 20% and basic rates from 18% to 10% for most assets
- New "investors' relief" for cash subscribed for new shares; this is similar to Entrepreneurs' relief but means that individual external investors in unlisted companies, holding the shares for at least 3 years, can now pay 10% CGT on disposal

10 Appendix A: Technical Appendix

Background and aims

10.1 The aim of this research was to understand the influence of ER on business decisions and the extent to which it is a motivating factor in business, investment, reinvestment, retirement, and tax planning decisions. It also sought to understand the assets and value of assets that people claim ER on and the drivers and barriers to claiming.

Achieved sample

10.2 A total of 1,700 interviews were achieved by telephone (*Computer Assisted Telephone Interviewing*) across three key customer groups between 24 October and 13 December 2016.

- 625 interviews with individuals that had claimed ER within the past 5 years – referenced as group 1 customers throughout this report;
- 603 interviews with individuals that had paid CGT at the full rate within the past 5 years – referenced as group 2 customers throughout this report; and
- 472 interviews with (individuals that had neither paid CGT nor claimed ER but held assets that mean they are likely to be eligible to claim ER in the future – referenced as group 3 customers throughout this report³⁴).

Approach to sampling

10.3 HMRC provided 17,850 sample records, which were selected at random, from their database for each of the customer groups referenced above:

- 6,925 Group 1 customers;
- 5,225 Group 2 customers; and
- 5,700 Group 3 customers.

10.4 Where contact details were lacking on the database, telephone numbers and addresses were found where possible via look-up services.

10.5 In total, only 12,000 individuals (selected at random from records where a postal address existed) were invited to take part in the research – they were all sent a letter introducing the research, giving them the opportunity to opt out. The sample included individuals where no telephone number was held to ensure they had the opportunity to provide their contact details and participate in the research.

10.6 The letter also included a datasheet to help participants prepare and collect the data being collected. Copies of the letter are included in Annex C and Annex D.

10.7 To maximise the response rates the letters were sent in two batches:

- 10,000 were sent on 14th October 2016; and
- 2,000 were sent on 11th November 2016.

³⁴ This sample was based on data held on HMRC's administrative systems about the assets people have declared through self-assessment.

10.8 The number individuals invited to take part in this research is summarised in table 10.1, which also shows the associated confidence intervals³⁵ of the achieved sample.

Table 10.1: Sample selection for main-stage fieldwork

	Sample selected for mail out (n) Main stage	No. of interviews achieved (n) Main stage	Confidence intervals – where 50% of participants gave an answer Main stage
Group 1 <i>(Claimed ER)</i>	4,660	625	+/- 3.9%
Group 2 <i>(Paid CGT at full rate)</i>	3,520	603	+/- 4.0%
Group 3 <i>(Neither paid CGT nor claimed ER but held eligible assets)</i>	3,820	472	+/- 4.5%

Questionnaire development and screening

10.9 Discussions with HMRC and a pilot telephone survey helped inform the development of the questionnaire.

10.10 All pilot interviewing took place from IFF's CATI (Computer Assisted Telephone Interviewing) centre between Monday 3 October and Friday 7 October. A warm up letter and advance data sheet was sent to 450 from which 44 pilot interviews were completed (14 with Group 1 and 15 respectively with Groups 2 and 3).

10.11 Following the pilot several amends were made to the questionnaire to ensure it was appropriate for each audience and that accurate data was collected for HMRC:

- Ensuring reliance on agents/advisers was captured;
- Ensuring participants had reviewed received and reviewed the datasheet before undertaking the interview and
- Tightening the wording around section C to ensure the line of questioning was more succinct to reduce participant burden.

10.12 The sample provided included named contacts, therefore the screening section of the questionnaire simply ensured that they recalled claiming Entrepreneurs' Relief (Group 1) or paying Capital Gains Tax (Group 2). The screening section for Group 3 customers aimed to ensure that they would be potentially eligible to claim ER in the future.

10.13 On average the mainstage questionnaire lasted:

- 15 minutes for Group 1;
- 14 minutes for Group 2; and

³⁵ We can be 95% confident the real figures lies within these ranges.

- 9 minutes for Group 3.

Response rates

10.14 Response rates were calculated for each of the three customer groups. Individuals who chose to opt out of the research were classified as refusals for the purpose of calculating response rates. Each respondent was allocated to one of the following categories:

- I – complete interview;
- P – partial interview;
- R – refusal (including those who opted out before the research, those who refused when contacted during the main-stage fieldwork);
- NC – non-contact (those with whom contact was never made during the fieldwork period)
- U – unknown eligibility (including unobtainable numbers that could not be traced during fieldwork);
- O – other non-response (including where correct respondent was unavailable throughout fieldwork and where appointments kept being arranged at the respondent's request);
- NE – not eligible.

10.15 The response rate was calculated using the following formula³⁶:

$$\text{Response rate} = \frac{I + P}{(I + P) + (R + NC + O) + e(U)}$$

Where 'e' is the estimated proportion of cases of unknown eligibility that are eligible, calculated as below:

$$E = \frac{(I + P) + (R + NC + O)}{(I + P) + (R + NC + O) + NE}$$

³⁶ Thomas, M., 2002 Standard Outcome Codes and Methods of Calculating Response Rates in Business Surveys at the Office for National Statistics, GSR Conference 2002, UK; and Beerten, R., Lynn, P., Laiho, J. & Martin, J. 2001 'Recommended Standard Final Outcome Categories and Standard Definitions of Response Rates for Social Surveys', ISER Working Papers no 2001-23.

10.16 Table 10.2 shows the number of interviews³⁷ achieved per group and the respective response rate using the formula described above.

Table 10.2: Response rates achieved

Outcome	Group 1 (Claimed ER)	Group 2 (Paid CGT at full rate)	Group 3 (Neither paid CGT nor claimed ER but held eligible assets)
I = Full interview	625	603	472
P = Partial interview	1	2	1
I+P	626	605	473
NC = Non-contact	137	80	61
R = Refusal	1,596	1,419	1,044
O = Other non-response	180	113	129
NC + R + O	1,913	1,612	1,234
U = Unknown eligibility (scope unknown)	1,413	968	1,491
NE = Not eligible (out of scope)	709	330	626
FINAL RESPONSE RATE	17.2%	19.8%	16.9%

10.17 The biggest barrier to response was the quality of telephone numbers and number of unobtainable numbers (39% of all available sample, which was higher than the refusal rate). These were categorised as unknown eligibility.

Non-response and weighting

10.18 For each of the three groups non-response analysis was conducted - effectively comparing the achieved sample with the sample provided by HMRC by:

- Age of individual (all groups);
- Tax year of claim/liability (Group 1 and 2);
- Value of CGT liability (Group 2 only); and
- Value of ER Claim (Group 1 only),

10.19 These variables represented the main defining characteristics of each population which is why they were appropriate for non-response rate analysis.

10.20 Across Groups 2 and 3 there was no response bias evident and data within this report is unweighted.

³⁷ The response rate gives the number of interviews achieved as a proportion of the number of records available for use at the beginning of the relevant wave of the project, also taking into account the number of refusals, unobtainable numbers, and various other non-response categories that were recorded throughout fieldwork.

10.21 Across Group 1 the achieved sample underrepresented people that had a lower claim value and as such a weight was derived for Group 1 data to correct for this. The table below shows how the Group 1 achieved sample compared to the Group 1 population in terms of ER claim value.

Table 10.3: Group 1 achieved sample vs population- ER Claim value

Range of ER claim value	Achieved sample	Population
Less than £5,000	33.12%	45.06%
£5,000 to £9,999	20.25%	15.13%
£10,000 to £49,999	32.07%	26.47%
£50,000 to £99,999	5.49%	5.89%
£100,000 to £499,999	7.17%	6.15%
£500,000 to £999,999	1.69%	1.03%
Over £1m	0.21%	0.27%
TOTAL	100%	100%

Data analysis

10.22 Each group was treated separately during analysis and the data was representative of their population, no aggregated analysis was conducted across the three samples.

10.23 Analysis breaks were added to each customer group data set to explore differences between subgroups in their responses. When comparing results between sub-groups it is essential to establish whether these differences are significant or not, that is, whether we can be certain that a difference between groups is to be considered a genuine movement and not due to chance. For the purposes of this report, if a difference in distribution between subgroups is referred to then it is significant and this indicates a confidence level of 95% or above (i.e. a 95% certainty that the difference in distribution is not due to chance but indicates a genuine change).

Further statistical analysis

10.24 The survey data was also used to better understand what behaviours predict how likely individuals are to be aware of ER at the point of initial investment how likely individuals are to be influenced by ER at the point of initial investment.

10.25 This involved a two-stage process:

- Exploratory CHAID analysis; and
- Multinomial analysis using Correlated Component Regression (CCR):

10.26 These are statistical modelling techniques, designed to determine which factors (i.e. questions/variables) are most likely to predict answers to questions where there are multiple categories (in this case influence of ER at the point of initial investment).

10.27 It should be noted that all the main survey questions which were included in these models concerned behaviours and events **after** the point of initial investment. The models only show behaviours which predict how likely someone was to have been influenced by ER when they invested, rather than necessarily showing what is driving influence of ER.

10.28 Thus, the analysis is not necessarily showing a direct causal relationship.

Initial CHAID Analysis

10.29 The objectives of the initial CHAID run were to:

- Assess how feasible further CCR analysis would be – i.e. do the initial associations look sensible?
- Explore whether new variables for the CCR could be derived.

10.30 These objectives were achieved by using question C13 (how influential ER was on the initial decision to invest) as the dependent variable and ‘feeding’ all other questions on the survey in the model.

10.31 Rather than using C13 as it was asked in the survey, 3 derived categories were created:

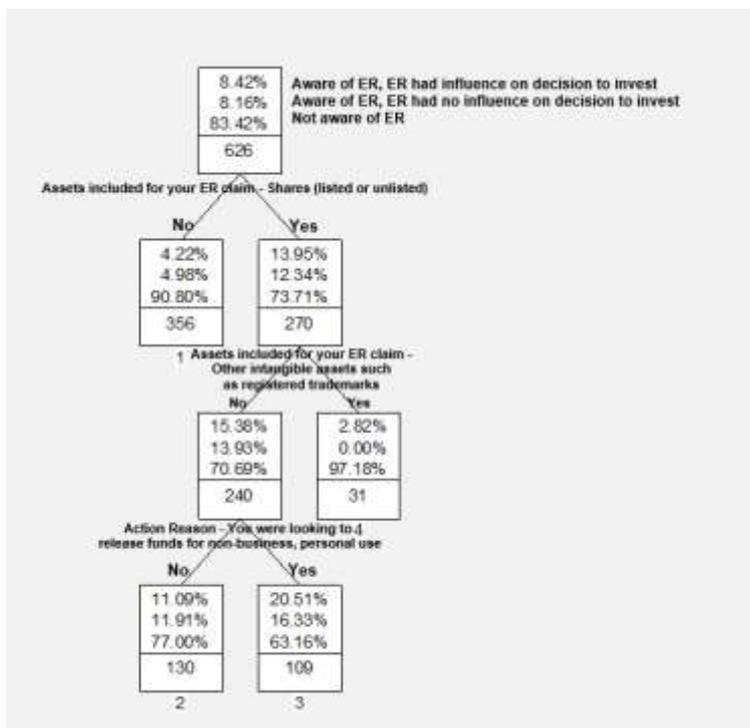
- Aware of ER and had an influence on initial decision to invest; *C13=1 or 2*
- Aware of ER and no influence on initial decision to invest; *C13=3*
- Not aware of ER: *C13=4 OR C13 not answered*

10.32 The resulting model showed that there was a strong association between the type of assets people invested in, the reason why they sought to dispose of their assets, whether they were looking to release funds for personal use and the dependent variable (i.e. influence of ER at the time of investment). More specifically, the people that were most likely to be influenced by ER at the point of investment:

- Invested in shares but not other intangible assets; and
- Were ultimately looking to release funds for personal use (not business use)

10.33 This model is summarised in the figure below. The three percentages in each box refer to the 3 derived categories of the dependent variable C13 (Aware of ER and had an influence, aware of ER and no influence and not aware of ER).

Figure 10.1: Initial exploratory CHAID model



10.34 The CHAID analysis showed that the associations were appropriate and informed new derived variables which could be used in the multinomial analysis described below.

Multinomial analysis using Correlated Component Regression (CCR):

10.35 The multinomial analysis was achieved using **Correlated Component Regression (CCR)**. CCR is a form of constrained (regularised) regression. It was originally designed for analysing data with too many highly correlated predictors and too few observations. It has since been shown to outperform standard regression on most data sets.

10.36 The final models were selected based on their ability to predict beyond the sample to new cases. The outputs produced by the procedure are similar to those of other regression programs, with slopes (the effect size) presented for each predictor.

10.37 The aim of the CCR was to understand key influences on responses to the same derived dependent variable which was used in the preliminary CHAID analysis (C13 – how influential ER was at the point of initial investment).

10.38 As a result of the initial CHAID analysis, three new derived predictor variables were also included in the model (and the individual components underlying them were excluded). These are summarised below

- **Derived predictor variable 1:** *Individuals that sought to dispose of shares (listed or unlisted) AND held no other intangible assets (such as registered trademarks) AND sought to release funds for non-business personal use*
 - Defined as: (C21=3) **AND** (C21 NOT 7) **AND** (C2=4)
- **Derived predictor variable 2:** *Individuals that sought to dispose of shares (listed or unlisted) AND held no other intangible assets (such as registered trademarks) AND were not seeking to release funds for non-business personal use*
 - Defined as: (C21=3) **AND** (C21 NOT 7) **AND** (C2 NOT 4)
- **Derived predictor variable 3:** *Individuals that sought to dispose of shares (listed or unlisted) AND held other intangible assets (such as registered trademarks)*
 - Defined as: (C21=3) **AND** (C21=7)

10.39 The following tables summarise the accuracy of the final CCR multinomial model.

Table 10.4: Summary of model accuracy

Model Accuracy	
The proportion of Yes and No observations correctly predicted as Yes or No	71.2%
In-sample	
The term used when a measure we have provided relates to predictive ability in the sample used to generate the model	75.7%
CV	
Shorthand for "Cross-validated sample", a term used when a measure provided relates to predictive ability in new cases (i.e. cases not used to build the model)	49.0%
Base size	109

Table 10.5: Model Accuracy – breakdown of actual observations vs predicted observations

		Predicted		Total
		No Influence	Has Influence	
Actual	No Influence	36	15	51
	Has Influence	15	38	53
Total		51	53	104

NB: This accuracy table is weighted (unweighted base=109)

10.40 The model showed which behaviours best predict how influenced individuals might be by ER at the point of initial investment and it is this analysis which is included in the main report findings (summarised below). The percentages shown in the table relate to the 'importance' or 'strength' of each factor in the model and not to individual responses from individuals in the survey.



What best predicts influence of ER at the point of initial investment?

	Importance in the model	Variable/question
Do not currently have any involvement in the business (disposed of)	24%	Current involvement in the business (C4)
Bought out by another company	16%	Why sought to dispose of assets (C2)
Assets did not include commercial property	11%	Assets included (C21)
Received support or advice from advisers, agents or third parties when making the ER claim	9%	Whether advisers used (A3)
Assets did not include Goodwill	8%	Assets included (C21)
Was looking to reinvest in the same business / set up another business in the same field	7%	Why sought to dispose of assets (C2)
Was not planning to retire	7%	Why sought to dispose of assets (C2)
ER was the reason action was taken	7%	Impact of ER (C10)

10.41 In summary, the model has shown that people who, at the time of the interview, no longer have involvement in the company, are intending to set up a new company and received advice, were the most likely to be influenced by ER at the point of investment.

11 Appendix B: Questionnaire

CGT Entrepreneurs' Relief: Behaviours and Motivations

Screener

ASK TELEPHONIST

S1 **Good morning / afternoon. My name is NAME and I'm calling from IFF Research. Please can I speak to NAME?**

Transferred	1	CONTINUE	
Hard appointment	2	MAKE APPOINTMENT	
Soft Appointment	3		
Engaged	4	CALL BACK	
Refusal	5	CLOSE	
Refusal – company policy	6		
Refusal – Taken part in recent survey	7		
Nobody at site able to answer questions	8		
Accountant / advisor telephone number rather than named respondent	14		
Not available in deadline	9		
Fax Line	10		
No reply / Answer phone	11		
Residential Number	12		
Dead line	13		
Company closed	14		
Request reassurance email			COLLECT EMAIL ADDRESS THEN CONTINUE OR MAKE APPOINTMENT (SEE APPENDIX FOR EMAIL TEXT)

ASK ALL

S2 Good morning / afternoon, my name is NAME, calling from IFF Research, an independent market research company. We're conducting a survey on behalf of HMRC where we're looking to understand experiences and views of Capital Gains Tax, we are looking to speak to a wide range of business owners, including those that haven't had to pay Capital Gains Tax. It doesn't matter if you don't know all the details about the tax as your views will still help shape future tax policy.

You should have received a letter about this research. [IF GROUPS 1 AND 2: Along with an accompanying data sheet to help you through the questionnaire.]

Continue	1	CONTINUE
Referred to someone else at establishment NAME _____ JOB TITLE _____	2	TRANSFER AND RE-INTRODUCE
Hard appointment	3	MAKE APPOINTMENT
Soft appointment	4	
Refusal	5	THANK AND CLOSE
Refusal – company policy	6	
Refusal – taken part in recent survey	7	
Not available in deadline	8	
Accountant / advisor telephone number rather than named respondent	10	
Request reassurance email	9	COLLECT EMAIL ADDRESS THEN CONTINUE OR MAKE APPOINTMENT (SEE APPENDIX FOR EMAIL TEXT)

S3 This call may be recorded for quality and training purposes only.

REASSURANCES TO USE IF NECESSARY

The interview will take around 10-12 minutes to complete.

Please note that all data will be reported in aggregate form and your answers will not be reported to our client in any way that would allow you to be identified.

If respondent wishes to confirm validity of survey or get more information about aims and objectives, they can call:

- **MRS: Market Research Society on 0500396999**
- **IFF:**
- **HMRC:**

A Background

ASK IF GROUP 1

- A1 **We understand that you claimed Entrepreneurs' Relief in [TAX YEAR FROM SAMPLE]. Do you remember doing this?**

READ OUT. SINGLECODE.

Yes	1	
No	2	THANK AND CLOSE
Don't know	3	THANK AND CLOSE

ASK IF GROUP 2

- A2 **We understand that you paid Capital Gains Tax, without a claim for Entrepreneurs' Relief in [TAX YEAR FROM SAMPLE]. Do you remember doing this?**

READ OUT. SINGLECODE.

Yes	1	
No	2	THANK AND CLOSE
Don't know	3	THANK AND CLOSE

ASK IF GROUP 1 OR 2 AND REMEMBER ER OR CGT (A1=1 OR A2=1)

- A3 **Did you receive any support or advice from advisers, agents or third parties when [IF CLAIMED ER: making the ER claim; IF PAID CGT: you paid Capital Gains Tax]?**

READ OUT. SINGLECODE.

Yes	1	
-----	---	--

No	2	
Don't know	3	

ASK IF RECEIVED SUPPORT / ADVICE (A3=1)

A3a **Which of the following best describes the support / advice you received when you [IF CLAIMED ER: made the ER claim; IF PAID CGT: paid CGT]?**

READ OUT. SINGLECODE.

An agent / advisor fully dealt with the process	1	
An agent / advisor dealt with some of the process	2	
A third party / agent / advisor simply advised me on how best to deal with the process	3	
None of the above	4	
Don't know	5	

ASK IF GROUP 3

A4 **We understand that you have not paid Capital Gains Tax in the past 5 years. Is this correct?**

READ OUT. SINGLECODE.

Yes	1	
No	2	THANK AND CLOSE
Don't know	3	THANK AND CLOSE

ASK IF A4=1

A5 **I'm going to read out a list of statements, please can you tell me if these are correct for you personally in relation to your business or the company you own shares in(?)...**

READ OUT. CODE ONE PER ROW.

	YES	NO	Don't Know
_1 You are a director or employee of a company	1	2	3
_2 You are the sole owner, or partner in, an unincorporated business	1	2	3
_3 The business in question has been trading for at least a year	1	2	3
_4 If the business in question is a company you have owned at least 5% shareholding in the business for a year or more	1	2	3

DS: IF ANY A5_3 OR A5_4=2-3 THEN THANK AND CLOSE

DS: IF BOTH A5_1 AND A5_2=2-3 THEN THANK AND CLOSE

B General Awareness of CGT and other reliefs

ASK ALL

- B1 I'm going to read out a list of different taxes and reliefs, please tell me how much you feel you know about each of the following...?

Would you say you have a lot of knowledge, some knowledge, a little knowledge, no knowledge but aware of it or are you not aware of it?

READ OUT. CODE ONE PER ROW.

	A lot of knowledge	Some knowledge	A little knowledge	No knowledge but aware of it	Not aware of it	DO NOT READ OUT: Don't know
_1 Corporation tax	1	2	3	4	5	6
_2 Income tax in general	1	2	3	4	5	6
_3 Income tax on dividends	1	2	3	4	5	6
_4 Capital Gains Tax in general	1	2	3	4	5	6
_5 Venture Capital Trust relief	1	2	3	4	5	6
_6 Relief for gifts of business assets	1	2	3	4	5	6
_7 Incorporation relief	1	2	3	4	5	6
_8 Relief for gains on disposal of shares to an employee ownership trust	1	2	3	4	5	6
_9 Business Asset Rollover Relief (BARR)	1	2	3	4	5	6
_10 Taper Relief	1	2	3	4	5	6

ASK ALL

- B2 **[IF NOT AWARE OF CGT (B1_4=4-6); Capital Gains Tax is a tax on the profit when an individual sells or gives away something (an 'asset') that has increased in value, it is the gain that is made that is taxed, not the amount of money received in exchange for the asset. Since April 2016, The normal rates of CGT are 10% and 20% for individuals, dependent on income, and 20% for trustees or personal representatives of someone who has died.**

IF AWARE OF CGT (B1_4=1-3)]; And thinking about Capital Gains Tax...]

If you fit certain criteria you can be eligible to claim Entrepreneurs' Relief, potentially reducing the amount of Capital Gains Tax payable. Are you aware of this relief?

READ OUT. SINGLECODE.

Yes	1	
No	2	
Don't know	3	

ASK IF AWARE OF ER (B2=1)

B3 **And how much knowledge would you say you have about Entrepreneurs' Relief?**

READ OUT. SINGLECODE.

A lot of knowledge	1	
Some knowledge	2	
A little knowledge	3	
No knowledge	4	
Don't know	5	

C Understanding the decision to claim relief / not claim relief

ASK GROUP 1 AND 2

C1 **This section aims to explore a little more about the event that led to you [IF CLAIMED ER: claiming Entrepreneurs' Relief; IF PAID CGT: being subject to Capital Gains Tax].**

Which of the following best describes the context or business 'event' that led to you [IF CLAIMED ER: claiming Entrepreneurs' Relief; IF PAID CGT: being subject to Capital Gains Tax], were you looking to...?

READ OUT. SINGLECODE.

Close your business	1	
Sell your business	2	
Sell some of your shares in your company that conducts the business	3	
Sell residential property	4	
Sell commercial property	5	
Sell other assets or parts of the business [SPECIFY]	6	

Other [SPECIFY]	7	
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ASK IF DISPOSED OF RESIDENTIAL PROPERTY (C1=4)

C1b Which of the following best describes the residential property you disposed of in relation to [IF CLAIMED ER: your ER claim; IF PAID CGT: being subject to Capital Gains Tax]?

READ OUT. SINGLECODE.

The property was used in a 'furnished holiday letting business'	1	
The property was a personal asset but used by a partnership / company you were a member or had shares in	2	
The property was used for the purposes of a business, e.g. as a farmhouse or an employee accommodation	3	
The property was used in a buy-to-let or other investment	4	
DO NOT READ OUT: Other [SPECIFY]	5	
Don't know	6	

DUMMY VARIABLE FOR TEXT SUBS

C1Dum DUMMY VARIABLE, DO NOT ASK		
Close your business	1	IF C1=1
Sell your business	2	IF C1=2
Sell some shares in your company	3	IF C1=3
Sell residential property	4	IF C1=4 AND C1b=4-6
Sell property used for business purposes	5	IF C1=4 AND C1b=1-3 OR C1=5
Sell other assets	6	IF C1=6
Undertake this action	7	IF C1=7

ASK GROUP 1 AND 2

C2 And why were you looking to [C1DUM]?

READ OUT. MULTICODE.

You were planning to retire	1	
You were looking to reinvest in the same business / set up another business in the same field	2	
You were looking invest in/set up another business in a different field	3	
You were looking to release funds for non-business, personal use	4	
You were bought out by another company	5	
Incorporation of a partnership or incorporation with another business	6	
As part of tax planning / efficiency / saving	7	
Some other reason [SPECIFY]	8	
Don't know	9	

C2Dum DUMMY VARIABLE, DO NOT ASK		
Sold business with intention to reinvest in a business in the same field	1	IF C1=2 AND C2=2
Sold business with intention to reinvest in a business in a different field	2	IF C1=2 AND C2=3
Sold some shares / other assets with intention to reinvest in a business in the same field	3	IF C1=3 AND C2=2
Sold some shares / other assets with intention to reinvest in a business in a different field	4	IF C1=3 AND C2=3
Sold a residential property with intention to reinvest in same or different field	5	IF C1=4 AND C1b=4-6 AND C2=2 OR 3
Sold a property used for business with intention to reinvest in same or different field	6	IF (C1=4 AND C1b=1-3) OR C1=5 AND C2=2 OR 3
Undertaken another action with intention to reinvest in a business in the same field	7	IF C1=6-7 AND C2=2
Undertaken another action with intention to reinvest in a business in a different field	8	IF C1=6-7 AND C2=3
Took action (selling or closing business or assets) without intention to reinvest or set up a new business	9	C2=1, 4-7
Closed business with intention to reinvest in a business in the same field	10	IF C1=1 AND C2=2
Closed business with intention to reinvest in a business in a different field	11	IF C1=1 AND C2=3

ASK IF SOLD BUSINESS (C1=2)

C3 Is the business that you disposed of still operating?

READ OUT. SINGLECODE.

Yes	1	
No	2	

Don't know	3	
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ASK IF BUSINESS STILL OPERATING (C3=1)

C4 Do you currently have any involvement in the business?

READ OUT. SINGLECODE.

Yes	1	
No	2	
Don't know	3	

ASK IF HAVE INVOLVEMENT IN THE BUSINESS (C4=1)

C5 What involvement do you have in the business?

WRITE IN		
Don't know	1	

ASK GROUPS 1 AND 2

C6 At the time when you were planning to [TEXT SUB: C1DUM], were you aware of the CGT that you would have been liable to pay?

READ OUT. SINGLECODE.

Yes	1	
No	2	
Don't know	3	

ASK GROUPS 1 AND 2

C7 And at the time when you were planning to [TEXT SUB: C1DUM], were you aware of Entrepreneurs' Relief?

READ OUT. SINGLECODE.

Yes	1	
No	2	
Don't know	3	

ASK GROUP 1 AND GROUP 2 THAT WERE AWARE OF ER (C7=1)

C8 At what point did you become aware of ER?

READ OUT. SINGLECODE.

Before I started the business / made the investment		
At the point I started the business / made the investment	1	
Before I began the process of disposing of the asset or business	2	
Once I had begun the process of disposing of the asset or business	3	
After I had disposed of the business or asset	4	
Don't know	5	

ASK IF GROUP 1 AND AWARE OF ER (GROUP 1 AND C7=1)

C9 Did knowing about ER, or its predecessor Taper Relief, influence your decision to [TEXT SUB: C1DUM]?

READ OUT. SINGLECODE.

Yes	1	
No – I would have taken that action regardless	2	
Don't know	3	

ASK IF ER DID IMPACT THE DECISION (C9=1)

C10 And how did ER affect your decision?

DO NOT READ OUT. MULTICODE

Impacted timing – brought action forward	1	
Impacted timing – pushed action back	2	

ER was the reason I took that action INTERVIEWER NOTE: this includes if stated for tax efficiency / benefit	3	
ER changed the way I carried out the action (e.g. taking preparatory steps to secure relief, changing the scale of the disposal/changing the type/scale of investment)	4	
It is tax efficient in comparison to paying tax on income	5	
Other [SPECIFY]	6	
Don't know	7	

C11 **DELETED.**

ASK GROUP 1

C12 **Overall, how important was the fact that you could claim Entrepreneurs' Relief in your decision to [C1DUM]?**

READ OUT. SINGLECODE.

Very important	1	
Quite important	2	
Neither important nor not important	3	
Not very important	4	
Not at all important	5	
DO NOT READ OUT: N/A – did not choose to take this action	6	
Don't know	7	

ASK IF AWARE OF ER WHEN SET UP BUSINESS (C8=1-2)

C13 **Thank you for discussing what happened when you went to [C1DUM], now if you could think back to when you first made the investment that you have since [IF GROUP 1: claimed ER for; IF GROUP 2: paid CGT on], would you say your awareness of the availability of ER had...?**

By the term 'invested', this isn't restricted to monetary input, we also mean time, effort and other resources.

READ OUT. SINGLECODE.

A big influence on your decision to invest	1	
Some influence on your decision to invest	2	
No influence on your decision to invest	3	
Don't know	4	

ASK ALL WHERE ER HAD AN INFLUENCE ON INVESTING IN BUSINESS (C13=1-2)

C14 How did your knowledge of ER influence your decision?

DO NOT READ OUT. MULTICODE.

Impacted timing – brought investment forward	1	
Impacted timing – pushed investment back	2	
ER was the reason I invested INTERVIEWER NOTE: this includes if stated for tax efficiency / benefit	3	
ER changed the way I carried out the action (e.g. taking preparatory steps to secure relief, changing the scale of the disposal/changing the type/scale of investment)	4	
It is tax efficient in comparison to paying tax on income	5	
Other [SPECIFY]	6	
Don't know	7	

C15 **DELETED.**

C16 **DELETED.**

ASK GROUPS 1 AND 2 THAT ARE AWARE OF TAPER RELIEF (B1_10=1-4)

C17 Did the availability of Taper Relief, prior to the availability of ER, influence your decision to reinvest in a new / existing business at any point?

READ OUT. SINGLECODE.

Yes – a big influence	1	
Yes – some influence	2	
No influence	3	

Don't know	4	
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ASK GROUPS 1 AND 2 AND THOSE IN GROUP 3 THAT ARE AWARE OF CGT (GROUP 1 AND 2 OR GROUP 3 AND B1_4=1-4)

C17c Has the difference between the rate of CGT compared with other taxes; such as income tax, influenced the business decisions you have made?

Yes	1	
No	2	
Don't know	3	

ASK IF DIFFERENCE IN RATE HAS INFLUENCED BUSINESS DECISIONS (C17C=1)

C18 And how would you say the similarity or difference of the different CGT rates in comparison to other tax rates; such as income tax, dividend tax or corporation tax, has influenced your business decisions?

Probe for

- **Business structure**
- **Remuneration of self / directors / employees / shareholders**

WRITE IN		
Don't know	1	

C19 DELETED.

C20 DELETED.

ASK GROUP 1

**C21 It may be useful to have the datasheet we sent you to hand for these next few questions. Which of the following assets were included in your ER claim?
READ OUT. MULTICODE.**

Property – other than residential properties, e.g. factories, offices, warehouses, open land	1	
Residential property, e.g. houses, flats	2	
Shares (listed or unlisted)	3	
Securities	4	
Goodwill	5	
All or part of a business (sole trade or partnership share)	6	
Other intangible assets such as registered trademarks	7	
Other	8	
Don't know	9	

ASK GROUP 1

C22 For each of the assets that made up your claim, please can you tell us the value of each?

INTERVIEWER NOTE: IF DK THEN PROMPT FOR BEST ESTIMATE

DS: ONLY SHOW THOSE SELECTED AT C21

ASSET	VALUE	
Property – other than residential properties, e.g. factories, offices, warehouses, open land	DS: ALLOW 0-40,000,000	
Residential property , e.g. houses, flats		
Shares (listed or unlisted)		
Securities		
Goodwill		
All or part of a business (sole trade or)		
Other intangible assets such as registered trademarks		
Other		
Don't know		

ASK GROUP 1

C23 Which of the following, if any, barriers did you face during the process of claiming ER?

READ OUT. MULTICODE.

Time – process took a while	1	
Uncertainty around eligibility	2	
Not being able to access guidance/get advice from HMRC	3	
Need to tailor the transaction(s) to ensure ER was available	4	
Criteria (including the 5% shareholding threshold)	5	
Having appropriate historical records	6	
Other [SPECIFY]	8	
No barriers faced	7	

ASK GROUP 2

- C24 **It may be useful to have the datasheet we sent you to hand for these next few questions. Which of the of the following assets made up your CGT liability?**

READ OUT. MULTICODE.

Property– other than residential properties, e.g. factories, offices, warehouses, open land	1	
Residential property, e.g. houses, flats	2	
Shares (listed or unlisted)	3	
Securities	4	
Goodwill	5	
All or part of a business (sole trade or)	6	
Other intangible assets such as registered trademarks	7	
Other	8	
Don't know	9	

ASK GROUP 2

- C25 **For each of the assets that made up your CGT liability, please can you tell us the value of each?**

INTERVIEWER NOTE: IF DK THEN PROMPT FOR BEST ESTIMATE

DS: ONLY SHOW THOSE SELECTED AT C24

ASSET	VALUE	DK
Property– other than residential properties, e.g. factories, offices, warehouses, open land	INSERT VALUE DS: ALLOW 0-40,000,000	
Residential property, e.g. houses, flats		
Shares (listed or unlisted)		
Securities		
Goodwill		
All or part of a business (sole trade or)		
Other intangible assets such as registered trademarks		
Other		

ASK GROUP 2

C26 **And why did you not claim ER?**
DO NOT READ OUT. MULTICODE

Wasn't aware of ER	1	
Did not think I was eligible	2	
Process seemed too time consuming / couldn't be bothered	3	
Agent advised against it	4	
Other [SPECIFY]	5	
Don't know	6	

ASK GROUP 2

C27 **If you were to sell / close your business / assets / shares now, would you claim ER?**

Yes	1	
No	2	

Don't know	3	
------------	---	--

ASK IF NOW WOULD CLAIM ER (C27=1)

C28 **DELETED.**

ASK GROUP 1 AND 2

C28d I'm going to read out a list of assets, please could you tell me if, at the time of your [IF CLAIMED ER: ER claim; IF PAID CGT: CGT payment], you disposed of any other assets that were not included in [IF CLAIMED ER: your claim; IF PAID CGT: your CGT payment]?

READ OUT. MULTICODE.

Property– other than residential properties, e.g. factories, offices, warehouses, open land	1	
Residential property, e.g. houses, flats	2	
Shares (listed or unlisted)	3	
Securities	4	
Goodwill	5	
All or part of a business (sole trade or)	6	
Other intangible assets such as registered trademarks	7	
Other	8	
None of these	9	
Don't know	10	

ASK GROUP 1 AND 2

C29 **There have been several changes to business tax announced in the Budget in 2015 and 2016, I'm going to read out this list below, for each, please let me know if you were aware of this change or not?**

READ OUT. CODE ONE PER ROW.

	YES	NO	Don't Know
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_1 Changes to the dividend tax rate: now between 7.5% and 38.1% depending on amount of taxable dividend income	1	2	3
_2 Changes to Corporation Tax rates; it has been cut from 28% in 2010 to 20% with plans for it to be cut to 17% in 2020.	1	2	3
_3 Reductions in the main CGT rates; from April 2016, higher rates of CGT were cut from 28% to 20% and basic rates from 18% to 10% for most assets	1	2	3
_4 New "investors' relief" for cash subscribed for new shares; this is similar to Entrepreneurs' relief but means that individual external investors in unlisted companies, holding the shares for at least 3 years, can now pay 10% CGT on disposal	1	2	3

ASK GROUP 1 AND 2

C30 **And considering these changes, please could you tell me if they would make you more or less likely to take some form of action that would make you eligible to claim ER?**

ADD IF NECESSARY: By 'action' we mean close, sell, or restructure your business, sell shares, assets or part of the business.

READ OUT. SINGLECODE.

Much more likely to take this action	1	
Slightly more likely	2	
These changes would make no difference	3	
Slightly less likely	4	
Much less likely to take this action	5	
Don't know	6	

D Likely future behaviour

ASK GROUP 3

D1 **As we mentioned earlier Capital Gains Tax is a tax on the profit when an individual sells or gives away something (an 'asset') that has increased in value. If you fit certain criteria you can be eligible to pay less CGT by claiming Entrepreneurs' Relief.**

In the next 5 years, how likely is it that you will sell your business / some assets from your business / shares in your company?

READ OUT. SINGLECODE.

Very likely	1	
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Quite likely	2	
Neither nor	3	
Quite unlikely	4	
Very unlikely	5	
Don't know	6	

ASK IF LIKELY TO SELL SOME ASSETS / BUSINESS (D1=1-2)

D2 **What exactly do you feel is likely to happen in the next 5 years?**
READ OUT. MULTICODE.

Close your business	1	
Sell your business	2	
Sell some of your shares in your company that conducts the business	3	
Sell parts of, or assets used only within, the business [SPECIFY]	4	
Other [SPECIFY]	5	
Don't know	6	

D2Dum **DUMMY VARIABLE, DO NOT ASK**

Close your business	1	IF D2=1
Sell your business	2	IF D2=2
Sell some shares in your company	3	IF D2=3
Sell other assets	4	IF D2=4
Undertake this action	5	IF D2=5
Undertake some sort of action	6	IF D2=6

ASK IF LIKELY TO SELL SOME ASSETS / BUSINESS (D1=1-2)

D3 **Why do you think you are likely to [D2Dum] in the next 5 years?**
 READ OUT. MULTICODE.

You will be planning to retire	1	
You will be looking to reinvest / set up another business	2	
You will want to release capital from the business	3	
As part of tax planning / tax efficiency / saving	4	
Some other reason [SPECIFY]	5	
Don't know	6	

ASK GROUP 3 THAT ARE AWARE OF ER (B2=1)

D4 **When you acquired / invested in your current business / assets, would you say your awareness of the availability of ER, or its predecessor Taper Relief, had...?**

READ OUT. SINGLECODE.

A big influence	1	
Some influence	2	
No influence	3	
Don't know	4	

ASK GROUP 3

D5 **If you were to become eligible to claim Entrepreneurs' Relief, would you consider claiming?**

Yes	1	
No	2	
Don't know	3	

ASK IF WOULDN'T CONSIDER CLAIMING ER (D4=2)

D6 **Why wouldn't you consider claiming ER?**
 DO NOT READ OUT. MULTICODE.

My agent has previously advised against it	1	
Process seems too time consuming / couldn't be bothered	2	

I wouldn't know how to	3	
Other [SPECIFY]	4	
Don't know	5	

ASK GROUP 3

D7 **Do you think ER would influence your decision to sell / close business or assets. or to invest in new ones?**

Yes	1	
No	2	
Don't know	3	

ASK IF WOULD INFLUENCE DECISION (D7=1)

D8 **How would this influence your decision?**

READ OUT. MULTICODE.

It would be the reason why I would close / sell asset / business	1	
It would be the reason for me investing in the asset/business	2	
It would encourage me to do this sooner	3	
It would mean that I would do this later	4	
In another way [SPECIFY]	5	
Don't know	6	

E Firmographics

READ OUT TO ALL

Thank you for your help so far. Finally, we'd just like to ask you a few questions to put your answers into perspective

ASK GROUP 3

E1 **First, roughly how many people are on the payroll across the whole organisation, including you and any working owners, but excluding outside contractors, agency staff and the self-employed?**

DS: ALLOW 1 TO 99999

WRITE IN	
DO NOT READ OUT: Don't know how many	X

IF DON'T KNOW (E2 CODES = X):

E2RAN **We'd be very grateful if you could give an estimate.**

Is the number of people on your payroll roughly...

PROMPT AS NECESSARY. SINGLECODE

1 person	1
2 to 4	2
5 to 9	3
10 to 24	4
25 to 99	5
100 to 199	6
200 to 249	7
250 to 499	8
500 to 999	9
1,000 or more	10
DO NOT READ OUT: Don't know	11

ASK GROUP 3

E2 **What is; the main business activity at this organisation?**

If your organisation carries out a wide range of unrelated activities please include the areas that employs the largest number of staff.

Please give some detail – for example if your organisation is a shop, what sort of things are sold.

WRITE IN

Don't know / Prefer not to say	1	
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ASK GROUP 3

E3 **What was the turnover of your business for the last 12 month period that you have accounts for?**

INTERVIEWER WRITE IN AND CODE TO RANGE BELOW

WRITE IN AND CODE TO RANGE		
Refused	1	

Less than £50,000	1	
£50,000 - £99,000	2	
£100,000 - £199,000	3	
£200,000 - £299,000	4	
£300,000 - £399,999	5	
£400,000 - £499,999	6	
£500,000 or more	7	
Refused	8	

E4 **DELETED.**

E5 **DELETED.**

ASK ALL

E6 **Which of the following age bands do you fall into?**

READOUT. SINGLE CODE.

Under 16	1	
16-24	2	
25 - 34	3	

35 – 44	4	
45 – 54	5	
55 – 64	6	
65-74	7	
75 or over	8	
DO NOT READ OUT: Refused	9	

ASK ALL

E7 Interviewer record gender

Male	1	
Female	2	
Refused	3	

ASK ALL

E8 Which of the following best describes your current employment status?

READ OUT. SINGLECODE.

Full-time employed (30 hours or more per week)	1
Part-time employed (less than 30 hours per week)	2
Self-employed	3
Not in paid work, including retired or unable to work	4
DO NOT READ OUT: Refused	5

F Thank and close

Name: RECORD DETAILS OF RESPONDENT WHO COMPLETED INTERVIEW	ALLOW REFUSED OPTION
--	----------------------

Job title:	ALLOW REFUSED OPTION
Email address:	ALLOW REFUSED OPTION

“

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