

What is Business Asset Disposal Relief (BADR)?

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Business Asset Disposal Relief (BADR) is a tax relief that can reduce how much capital gains tax you pay when closing your limited company. If you're a freelancer, contractor, or consultant with your own business, it's one of the key tax planning opportunities to be aware of, especially if you're building up reserves in your company.

What does it do?

When you close your company, any remaining profits after settling liabilities are treated as a capital gain, rather than income. BADR allows you to pay a lower rate of CGT on those profits.

From April 2026, the BADR rate will be 18%. Whereas, without BADR, capital gains tax is charged at:

- 18% on the portion of your gain that falls within the basic rate band, and
- 24% on the portion that falls into the higher rate band depending on your total income in that year.

So, depending on your income, BADR could save you up to 8% in tax.

What are the rules?

To qualify for BADR, you need to meet a few key conditions:

- **You must be an officer or employee of the company:** this includes being a director which most company owners already are.
- **You must hold at least 5% of the shares:** these shares must give you at least 5% of the voting rights, profits, and assets on winding up.
- **The company must be trading:** Your company must be mainly involved in providing goods or services, not holding investments. As a general rule of thumb, if more than 20% of your company's income, assets or activities relate to non-trading investments, you may not qualify.
- **You must meet all the above conditions for at least 2 years:** You must meet the requirements for two continuous years up to the date of closing the company (or selling your shares, if applicable).

Is there a lifetime limit?

Yes, BADR has a **£1 million lifetime allowance** on the total gains you can claim it on. For most freelancers and contractors, this is more than sufficient.

Why this matters for long-term tax planning

If you're drawing higher rate dividends now, you're likely paying 33.75% tax on those amounts. By contrast, leaving the funds in the company and extracting them when you close (and qualify for BADR) could mean paying just 18%, or even 14% if done before April 2026.

So, there's an opportunity cost to taking money out now versus planning to benefit from BADR later. For many, it can be more tax-efficient to take only the basic rate of income each year and let reserves build, especially if you're thinking about winding down your company in the future.

That said, we completely appreciate that there's a time-value to money, so you may prefer to withdraw funds now, even if it means a higher tax bill overall.

If you have any questions about this, feel free to reach out to your dedicated accountant or email us at support@mightyaccounting.com.

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