

EISA Example

Inheritance Tax Relief

Shares in EIS qualifying companies will generally qualify for Business Property Relief for Inheritance Tax purposes. Relief can be at rates of up to 100% after two years of holding such investment, so that any liability for Inheritance Tax is reduced or eliminated in respect of such shares.

Worked Example

If the shares have been held for at least two years before death, the investment should, in most cases qualify for Business Property Relief for Inheritance Tax purposes at rates of up to 100% and with the other benefits of the EIS, the effective cost of investment may be greatly reduced.

Initial Investment	£100,000
Less income tax relief @ 30%	(£30,000)
Net Cash Outlay for Investment	£70,000
Hypothetical Value of Investment	£160,000
Gain on Investment	£90,000
* IHT relief at 40%	(£64,000)

IHT Relief above assumes the investment is worth £160,000 at the date of death. IHT relief would be obtained at up to 40% of the value.

There is no claw back of the income tax relief or deferral relief on death. Thus in this example £160,000 of value passes to beneficiaries free of inheritance tax and the estate is also augmented by income tax and capital gains tax saved (there is of course no CGT on death anyway) by the deceased in this example. In total, the £100,000 investment has created an additional benefit to the beneficiaries of £94,000 which would not have been available if the investment had been in cash or quoted securities which attract none of the tax reliefs described above. In other words, the estate saved £64,000 in IHT, which would have otherwise been paid; the investment removes £160,000 of taxable value to the benefit of the estate; and any CGT deferral in the original investment would also fall away on death.