

EIS and Inheritance Tax Reliefs Summary

Shareholdings in EIS qualifying companies may obtain relief from Inheritance Tax (IHT) after two years due to the interaction with Business Property Relief. This enables potentially significant holdings to be preserved without being taxed. Often dubbed the 'optional tax', IHT impacts more on individuals who do not consider themselves to be wealthy but simply fall within the IHT net by virtue of the value of the family home. The current exempt level for IHT is £325,000 with any excess being taxed at 40%.

The following is a summary of the main provisions of Business Property Relief for Inheritance Tax. Investors should seek professional advice before making any investment to ensure the availability of this relief:

Basic Rules

Relief is available for transfers of certain categories of business and of business assets ("relevant business property"), if they qualify as "relevant business property" and the transferor has owned them for a minimum period. The relief is available for transfers in life and on death. It is also available when relevant business property is chargeable as settled property. The relief reduces the value transferred by a transfer of relevant business property.

Relevant Rates of Relief

The rate is 100% for shares which are:

- not listed on a recognised exchange ("unquoted shares")
- traded on AIM or the Plus-quoted and Plus-traded markets (the Plus-listed market is a recognised stock exchange).

Relief may be restricted, though, if at the time of the transfer the company owns an asset that is not required for use in the business.

EIS companies cannot have their shares listed on a recognised stock exchange at the time of the issue of shares qualifying for EIS tax reliefs. If the shares are subsequently listed, EIS reliefs may be retained but Business Property Relief for Inheritance Tax purposes will not be available.

Business not Eligible

Relief is not available where:

- the business is engaged wholly or mainly in dealing in securities, stocks or shares, land or buildings or in making or holding investments
- the business is carried on otherwise than for gain

- the shares in the company are subject to a contract for sale or the company is being wound up, unless the sale or winding up is part of a reconstruction or amalgamation to enable the business to be carried on.

The following may qualify for relief

- the business of a market maker or discount house in the United Kingdom
- shares or securities in a company which is a holding company and the group as a whole is not wholly or mainly engaged in property or share investment or dealing.

For further information with regard to qualifying trades for EIS purposes please visit <http://www.hmrc.gov.uk/manuals/vcmmanual/VCM17030.htm>

Minimum Period

The general rule is that property is not relevant business property (and so does not qualify for relief) unless it was owned by the transferor through the two years immediately before the transfer.

The following should be noted:

- If the transferor became entitled to the property on the death of a spouse or civil partner, any period during which the spouse or civil partner owned it is counted
- If the property transferred had been acquired on an earlier transfer within the two year period, relief is available if all the following are satisfied:
 - (a) the earlier transfer was eligible for business relief
 - (b) the earlier transfer was made to the current transferor or his or her spouse or civil partner
 - (c) one of the transfers was made on death
 - (d) the property, apart from the two year rule, would qualify for relief
- In certain circumstances relief is available when the property transferred replaced other relievable property
- If the transferor inherited the property on a death other than of a spouse or civil partner, ownership is deemed to run from the date of that death.