Are you making the Most of Inheritance Tax Relief?

Qualifying businesses can attract business property relief (BPR) at 100% for inheritance tax, but it cannot be taken for granted. It can apply to company shares, interests in partnerships and sole traders, but this article concentrates on some of the key traps and pitfalls for the unwary shareholder. Our Professional Partners, leading accountants and tax advisers James Cowper LLP advise:

"If a company's business is wholly or mainly one of making or holding investments (i.e. over 50%) no relief is due at all – it is an all or nothing test. The risk is that a company's activities change over time to include an investment activity so that the test can be failed without the shareholders even realising it. An example would be a property development company that increasingly retains developed property as investments for rental purposes.

Where a company owns "excepted assets", i.e. assets which have neither been used wholly or mainly for the purpose of the business throughout the whole of the previous 2 years nor are required at the time of the transfer for future use for those purposes, a proportion of the shares' value will not attract relief based on the value of those excepted assets.

A further key point in relation to BPR applies to premises owned personally by the shareholder of a company and used wholly or mainly in that company's business. On the face of it this looks like a business asset but in practice only half of its value will attract IHT relief, and then only if the company is controlled by the individual shareholder, perhaps with their spouse. This contrasts with 100% relief which might apply to the value of the shares themselves.

Similar rules to groups of companies, but with the added complication that the BPR conditions must be considered at both company and group levels.

Similar tests apply for Capital Gains Tax (CGT) Entrepreneurs' Relief and Gift Relief. In these cases, however, the hurdle is somewhat higher in that the company must be over 80% trading by reference to a number of factors. This discrepancy creates a further trap when planning a family's affairs.

The BPR and CGT limits will catch many shareholders out and need to be kept under regular review so that any appropriate action can be taken at an early stage."

To find out more, please contact us on **info@evolutioncbs.co.uk**

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