

A short guide to Business Relief

Owning a business can be one of life's most rewarding experiences, but it is not without its challenges; not least of which is keeping the cash flowing, paying the wages, minimising taxation and, at times, dealing with one's fellow shareholders, directors or partners. After a lifetime's hard work, the last thing any entrepreneur wants is to pay more tax than they have to, hence why HMRC grants Business Relief (BR) for Inheritance Tax (IHT) purposes.

What Qualifies for Business Relief?

- A business or an interest in a business (such as a partner in a partnership or a shareholder in a limited company);
- Unquoted shares including those traded in the Unlisted Securities Market or the Alternative Investment Market (*FYI, shares that are listed on a recognised overseas stock exchange are quoted for IHT purposes, even if they are also traded in the AIM or USM*);
- A holding of shares or securities owned by the transferor, which are fully listed on a recognised Stock Exchange, which themselves or with other listed shares or securities give control of a company;
- Land, buildings, plant or machinery owned by a partner or controlling shareholder and used wholly or mainly in the business of the partnership or company immediately before the transfer (*FYI, this applies only if the partnership interest or shareholding would itself, if it were transferred, qualify for business relief*);
- Any land, or buildings, machinery or plant which was used wholly or mainly for the purpose of a business carried on by the transferor and was settled property in which the transferor was beneficially entitled to an interest in possession and used in the transferor's business.

Business Relief Rates

Depending on the type of business asset you own, the rate of relief against IHT be 50% or 100%.

- A business or interest in a business - 100%
- A holding of shares in an unquoted company - 100%
- Control holding of shares in a quoted company (more than 50% of the voting rights) - 50%
- Land, buildings or plant and machinery used in a business of which the deceased was a partner at the date of death or used by a company controlled by the deceased - 50%
- Land, buildings or plant and machinery held in a trust where the deceased had the right to benefit from the trust and the asset was used in a business carried on by the deceased – 50%

Exclusions for Business Relief

The following are excluded from being able to claim this relief:

- A business or company which is engaged wholly or mainly in dealing in securities, stocks or shares, land or buildings, or in making or holding investments (such as property portfolios or buy to lets);
- A business which is not carried on for gain;
- A business which is subject to a contract for sale, unless that sale is to a company which will carry on the business, and the sale is made wholly or mainly in consideration of shares in the company buying the business;
- Shares in the company which 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 of the company to be carried on.

Claiming Business Relief

To claim BR, it is important to note that this relief is only available whilst the business exists, the shares in an otherwise qualifying business are being held, and the owner dies in harness or during ownership. However, subject to certain rules of continued ownership or if the value is converted into non-qualifying assets (e.g. the proceeds of a life policy or sale), once in the recipient's hands the money forms part of their estate and is subject to IHT at the prevailing rate. In other words, BR is only worth a bean if you die before you sell!

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