BUSINESS RELIEF SCHEME

What is it?

Business Relief (BR) is a tax relief provided by the UK Government as an incentive for investing in specific types of trading companies. It was introduced by the Government in the Inheritance Tax Act 1984, and has since been extended to include investments in certain types of unquoted companies (not listed on the main stock market) to encourage investment into this area.

BR was introduced as part of the 1976 Finance Act, and was created to allow small businesses to be passed down through generations without incurring an IHT liability. However, over the years the scope of BR has been widened, making it an attractive option for individuals looking to invest in companies in order to remove a potential IHT burden.

Once assets qualifying for Business Relief are held for two years, they are exempt from IHT (providing they are still held at the time of death).

Eligibility

Subject to meeting all required conditions, business relief is available on the following categories of 'relevant business property' at the rates shown below.

You can get 100% Business Relief on:

- A business or interest in a business
- Shares in an unlisted company

You can get 50% Business Relief on:

- Shares controlling more than 50% of the voting rights in a listed company
- Land, buildings or machinery owned by the deceased and used in a business they were a partner in or controlled
- Land, buildings or machinery used in the business and held in a trust that it has the right to benefit from

Contribution limits

There would be no minimum for individual shareholdings but packaged schemes may require a minimum investment in the region of £25,000.

Taxation

The tax position on BR investments is broadly as follows:

- Inheritance Tax – Once assets qualifying for Business Relief are held for two years, they are exempt from IHT (providing they are still held at the time of death)

Withdrawals

Any capital withdrawals will no longer qualify for BR and therefore lose any IHT exemption.

Risk considerations

Don't invest unless you're prepared to lose all the money you invest. This is a high-risk investment and you may not be protected if something goes wrong.

There are a number of risk considerations that need to be taken into account. It is important that you are aware of these.

- Investments made by the Product Provider are into unquoted companies. These are deemed to be higher risk than companies listed on the London Stock Exchange Official List. You could lose some or all of your money if the investment falls in value or the company fails.
- Past performance is no guide to future performance and there is no guarantee that the investment objective will be achieved.
- If your regular income withdrawals exceed the level of growth achieved by the investment, you will erode your capital value.
- There is no guarantee of the level of capital gains or the income that will be generated by this investment as this will depend on the underlying performance of the investee companies.
- Investments in shares in unquoted companies are not readily marketable and the timing of any realisation cannot be predicted.
- This investment is designed to be held until death, as investments in qualifying companies must be held for at least two years (and at the time of death) in order to be potentially eligible for business relief. The Product provider will make investments into companies that it reasonably believes to be qualifying investments for BR at the time of purchase but cannot guarantee that any such investments will remain qualifying.
- The relevant assets still form part of your estate and therefore are taken into account for residence nil rate band purposes i.e. they count towards the £2m taper threshold.
- This investment will not be exempt from IHT in the event of your death within the first two years.
- Any capital withdrawals will no longer qualify for BR and therefore lose any IHT exemption.
- Rates of tax, tax benefits and allowances are based on current legislation and HM Revenue & Customs practice. These may change from time to time and are not guaranteed. In this case, the IHT relief available on this investment may be lost. Changes in law can have retrospective effect.
- This investment is more suitable as an inheritance tax planning tool rather than an investment in its own right. If, in future, the Government was to abolish Business Relief, you could be left with a potentially unattractive asset.

Information on high risk investments is available from the Financial Conduct Authority at *fca.org.uk/investsmart/5-questions-ask-you-invest* and *fca.org.uk/investsmart*.