

## 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.

The following table compares an EIS investment of £100,000 and the holding of cash of £100,000. It assumes that the investor's inheritance tax nil rate band is already fully used.

Initial Investment	Holding of cash	EIS investment
<b>Cash</b>	£100,000	
<b>EIS investment</b>		£100,000
<b>Less income tax relief @ 30%</b>		(£30,000)
<b>Net Cash Outlay for Investment</b>		£70,000
<b>Hypothetical value of cash</b>	£105,000	£30,000
<b>Hypothetical value of EIS investment</b>		£160,000
<b>IHT on cash balance</b>	(£42,000)	(£12,000)
<b>Value of estate</b>	£63,000	£178,000

\*IHT Relief above assumes the investment has been held for more than two years and is worth £160,000 at the date of death. IHT relief would be obtained at up to 40% of the value. Over the same period, the cash balance increases to £105,000.

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.