The key to reducing your inheritance tax with SEIS / EIS

by Key Business Consultants

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This booklet is a guide to all of the opportunities that the government's Seed Enterprise Investment Scheme (SEIS) and the larger sized EIS could bring to you and your family to protect your wealth.

SEIS exempts up to £100,000 per tax year of any amount that you invest in early stage start-ups from inheritance tax (IHT) if held for just two years with a saving of £40,000. If the business that you would like to invest in has traded for more than two years then you can use the EIS scheme to invest up to £1m per year with a saving of £400,000.

Today, 1 in 10 people in Britain have assets over one million pounds, of which the main asset is your home[1]. At the moment, for beneficiaries their inheritance tax bill could mean a potential toll of £270,000 or more. There is the possibility of family homes becoming exempt to inheritance tax up to £1m after the 2015 general election however this does not change the benefits of SEIS and EIS tax reliefs as one of the best and most cost effective tax planning tools around.

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What follows in this booklet is some information about:

[1] http://www.thisismoney.co.uk/money/news/article-2630293/ONS-wealth-report-reveals-10-Brits-millionaires.html

SEIS & EIS comparison

If you invest in new companies less than two years into their trading history then you can own up to 30% of the company and exempt the shares from inheritance tax within just two years. Below is a comparison table of all the reliefs available:

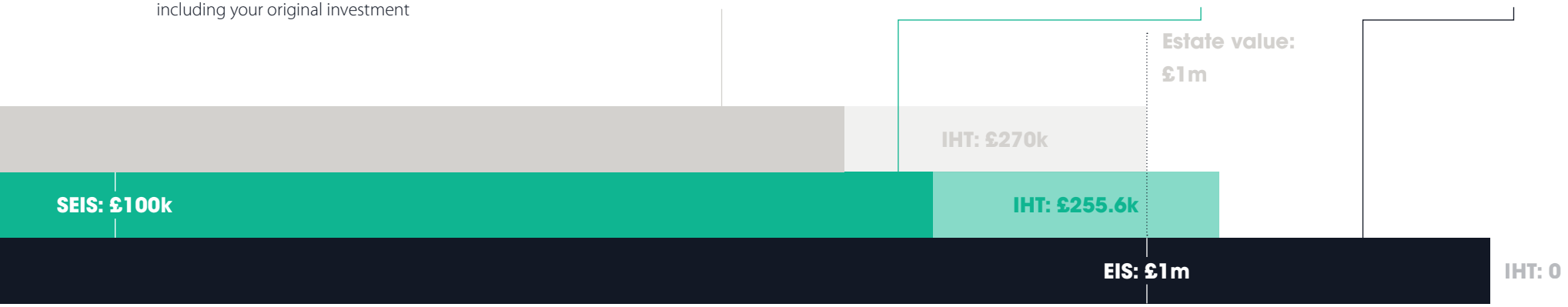
SEIS is the most generous tax scheme ever created by any UK government and was made permanent in the 2014 Budget.

Tax reliefs	SEIS	EIS
Limits	£100,000 per year maximum	£1,000,000 per year maximum
IHT	100% after two years	100% after two years
Income tax	50% of the investment amount	30% of the investment amount
CGT on investment	50% CGT exemption	100% CGT deferral
Loss relief	100% on unrelieved amounts	100% on unrelieved amounts
CGT on disposal	100% exempt	100% exempt

Example #1

Estate value: £1,000,000

	without SEIS / EIS	with SEIS investment	with EIS investment
Amount invested	—	£100,000 *	£1,000,000 *
Income tax saved	—	£50,000	£300,000
Reinvestment relief saved	—	£14,000	—
Final estate	£1,000,000	£964,000	£300,000
Inheritance taxation	£270,000	£255,600	£0
Beneficiaries receive including your original investment	**£730,000**	**£808,400**	**£1,300,000**



*This example assumes that your investment has neither increased not decreased in value. **Assumes that capital gains worth £100,000 are relieved in the same year.

Subject to the timings and relationship that you have with the company prior to the share issue, you can be a director of the company and receive income and dividends from the company as you would normally with any other business.

Example #2

Estate value: £425,000

	without SEIS / EIS	with SEIS investment	with EIS investment
Investment	—	£100,000 *	£100,000 *
Income tax saved	—	£50,000	£30,000
Reinvestment relief saved **	—	£14,000	—
Final estate	£425,000	£389,000	£355,000
Inheritance taxation	£40,000	£25,600	£12,000
Beneficiaries receive including your original investment	**£385,000**	**£463,400**	**£443,000**

*This example assumes that your investment has neither increased not decreased in value. **Assumes that capital gains worth £100,000 are relieved in the same year.

Subject to the timings and relationship that you have with the company prior to the share issue, you can be a director of the company and receive income and dividends from the company as you would normally with any other business.

Private client opportunities

Due to one particular restriction affecting the EIS/SEIS investor you cannot be 'connected' with the company[2] before making your investment. We will work with you from your current situation to create opportunities or otherwise to plan for your own SEIS/EIS investment close to home.

Importantly you could be the sole director and the sole signatory of the bank account or have other controls to safeguard your investment.

A simple business idea could merely break even and as long as it turned over the investment amounts within three years then your assets will be safeguarded for your beneficiaries. Of course, many people will have children or friends who are starting their own businesses and this would be a tax efficient way to invest together in that venture and still retain the value of those shares.

Our new business start-up approach is to put the right structures in place quickly at the beginning so that you and your partners can focus on the trade without worrying about anything else.

We will set out clear strategies on how to implement all of your systems with transparent timings and costings will make you feel like we are part of your team helping you to succeed.

All of the below relatives can be investors or employed in the business: Brothers, sisters, nephews, nieces, uncles, aunts, in-laws and step relatives are not considered to be associates for this purpose.

At Key Business Consultants, we implement automation as a service (AaaS) with online, digital software solutions where possible and a similarly focussed bookkeeping system like Xero which can integrate with other service providers via software add-ons. We also keep all of our records safely secured in the cloud accessible at all times and take view-only access of your systems to reduce time and costs.

Some examples of the EIS/SEIS businesses that we have set up for our clients include:

- **Single employee consultancy businesses**
- **Online fashion, health, or accessories retail stores**
- **Marketing agencies**
- **A charity marketplace**
- **Video music, film and other documentaries**
- **Property repairs and maintenance**
- **Car importing and trading**

2 An investor is connected with a company:

- if the investor and the investor's associates' interest in the company exceeds 30%. 'Interest' includes the company's share capital, voting rights or assets on a winding up.
- if the investor or any of the investor's associates is an employee or partner of the company;
- if the investor or any of the investor's associates is a director of the company.

However, an investor who has not previously been connected with the company or employed in the business can take an active role in its management after making the investment through becoming an unpaid or a paid director - 'reasonable and necessary' remuneration will be permissible.

An investor's associates for these purposes include: spouses, children, grandchildren, parents, grandparents or partners in any business partnership of which the investor is a member or companies which the investor controls.

How much inheritance tax do you pay normally?

Your estate will owe 40% on anything above the £325,000 inheritance tax threshold — or 36% if you leave at least 10% to a charity.

Estate value: £1m	
Exempt: £325k	40% on the remaining
	IHT: £270k

So for example, if you leave behind assets worth £1,000,000, your estate pays nothing on the first £325,000, and 40% on the remaining £675,000 — a total of £270,000 in tax.

For many, this means that by the time you look at ways to reduce your estate it is not possible to avoid the majority of this tax. Given all the efforts that are made to grow and capitalise your estate value you will now need to reverse that instinct in order to safe-guard your children or grandchildren's inheritance.

Simply giving your money or assets away will not exempt those items from being part of your estate. People particularly at risk of losing the opportunity to mitigate this tax are those who unfortunately become suddenly ill and end up not having the time to take advantage of the 'Seven Year IHT rule'.

Gifts & the 7 year rule

Unlike SEIS/EIS, if you make a gift to someone before you die then it is still usually counted as part of your estate if given within seven years of giving that gift. In that case your estate or the person who received the gift will have to pay Inheritance Tax on it.

The seven year rule however reduces the amount on which tax is due by 20% on a sliding scale if the gift was given away between 3 and 7 years before IHT becomes due, see below.

Like all tax events, a gift must be genuine and unconditional that you will not gain from.

Any form of half measures or actions not followed through would be challenged by HMRC and could result in a net worse off position than if the steps had not been set in motion.

Years between gift & death	Reduction in tax charged	with SEIS/EIS
0-2	0	0
2-3	0	100%
3-4	20%	100%
4-5	40%	100%
5-6	60%	100%
6-7	80%	100%
7+	100%	100%

As mentioned at the beginning of this article, the biggest asset most people have is their house, yet trying to give half or all of the property to your children will not work if you continue to live in it. This is called a gift with reservation (a half measure) and so the new owner would need to charge rent on their portion of the house and pay taxes on the income in order to satisfy HMRC that the measure was fully enacted.

Clearly, waiting the full seven years is a longer time to wait than just two years via the EIS/SEIS scheme.

Investing in EIS/SEIS shares would also not involve you having to give any money or assets away at all. You will still own the shares with full rights and control over further income and the shares themselves.

With our help & the right planning, you could unlock the full potential of your SEIS or EIS inheritance tax saving.

Get in touch with us today, we are happy to answer any questions.

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