# Tax Relief on the Gift or Inheritance of a Business

Capital Acquisitions Tax (CAT) is an Irish tax that is levied on individuals who receive gifts and inheritances. This tax is charged on the value of the property acquired by the beneficiary above certain tax-free thresholds.

## Tax-Free Thresholds

The amount of CAT payable by a beneficiary of a gift or inheritance depends on their relationship with the donor (or deceased). There are three tax-free thresholds, known as Group thresholds.

1. **Group A:** Applies to gifts or inheritances from a parent and is currently €335,000;
2. **Group B:** Applies to gifts or inheritances received from other blood relatives e.g. siblings, aunts, uncles, grandparents and is currently €32,500;
3. **Group C:** Applies to gift or inheritances received from all other individuals, including friends and is currently €16,250.

Any amount received above these thresholds is subject to CAT which is currently levied at the rate of 33%.

## Gift or Inheritance of a Business

When a business is transferred between generations, the tax implications must be carefully considered by the incumbent owners and the beneficiaries in order to ensure a smooth transfer and minimise tax liabilities.

The CAT burden described above will be relieved where an individual receives certain business property by way of gift or inheritance, subject to meeting relevant conditions.

The relief operates by reducing the taxable value of the gift or inheritance by up to 90% where the asset is “relevant business property” and the benefit meets the required conditions.

*Relevant Business Property*

Revenue define a relevant business as “a business in any activity, trade, profession or vocation which generates income or profits over time”.

For the purposes of the relief, “relevant business property” includes:

- The transfer of a business or a share in a business
- Shares or securities of a company carrying on a business

Individual assets used in a business do not qualify for business relief unless they are transferred along with the business or an interest in the business.

- Where a business deals mainly in the following, they do not qualify for business relief
    - Currencies

- Securities
- Stocks or shares
- Land or buildings
- Making or holding investments

*Ownership Period*

- The disponer making the gift or inheritance must have owned the property for a minimum period immediately prior to the transfer, as follows:
  - 5 years in the case of a gift, or
  - 2 years in the case of an inheritance

Ownership by the disponer's spouse, civil partner or by a trustee may count for the purposes of satisfying this requirement.

*Continued Operation:*

The business must continue to be carried on by the beneficiary for a minimum period after the transfer. If the business ceases to operate within this period, the relief may be clawed back.

*Exclusion of Certain Assets*

Even where the above conditions are met, the value of the “relevant business property” may still be restricted due to the exclusion of certain assets. For example, assets that are not used wholly or mainly for the purposes of the business may be excluded.

*Valuation of the Business Assets*

The valuation of the business assets is crucial to determining the CAT liability and needs to be carefully considered by the parties.

## Example of how Business Relief Reduces a CAT liability:

Tom inherits all the shares of his family’s company which operates as a butchers on the death of his father. The taxable value of the shares were €1 million.

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|---|---|---|
| Taxable Value before relief | €1,000,000 | |
| Less Business Relief (€1m @ 90%) | (€900,000) | |
| Net Taxable Value | | €100,000 |

Tom's CAT liability is NIL as the €100k taxable value is fully covered by his available Group A tax free lifetime threshold on gifts/ inheritances from a parent.

## -The relief will be clawed back if

- The business, or any business which replaced it, ceases to trade within a period of 6 years after the relevant valuation date, unless the business is replaced within 1 year by other relevant business property. A clawback does not arise where the business ceases to trade by reason of bankruptcy or as a result of a bona fide winding-up on the grounds of insolvency,

- The business, or the shares or securities are sold, redeemed or compulsorily acquired within 6 years of the benefit and are not replaced within 1 year by other relevant business property (or replaced within 6 years if there is a CPO of the property).


## - Filing Obligations:

To claim Business Relief, a Form IT38 CAT return must be filed electronically through MyAccount or Revenue Online Services (ROS). Any tax due must be paid by the relevant pay and file date.

- If the valuation date falls between 1 January and 31 August, the tax must be paid by 31 October of that same year;

- If the  valuation date falls between 1 September and 31 December, the tax must be paid by 31 October of the following year.

CAT Business Relief is a valuable relief that can significantly reduce the tax burden on the transfer of business property, provided the specific conditions are met. It encourages the continuation of businesses within families and helps to preserve the value of business assets. Proper planning and timely filing are crucial to avoid unnecessary penalties and interest.


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