

Business Relief

Capital Acquisitions Tax Manual Part 12

This document should be read in conjunction with sections 90 to 102A CATCA 2003.

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12.1 Introduction

Sections 90 to 101 of the Capital Acquisitions Tax Consolidation Act (CATCA) 2003 provide for a relief from tax for gifts and inheritances of “relevant business property” (see paragraph [12.5.2](#)) taken on or after 11 April 1994. The relief applies to gift tax and inheritance tax but not to discretionary trust tax. It is generally referred to as “business relief” and was introduced in the Finance Act 1994.

The relief amounts to a flat 90% reduction in respect of the taxable value of relevant business property.

Example

Michael inherited the family business on the death of his father on 1 May 2020. The taxable value of the business was €400,000. Business relief is calculated as follows:

	€
Taxable value prior to relief	400,000
Reduction of 90%	360,000
Revised taxable value after relief	40,000

12.2 Claiming the Relief

Where Business Relief is claimed, the IT38 CAT Return must be filed electronically through [MyAccount](#) or [Revenue Online Service](#) (ROS).

Section 46(4) CATCA 2003 generally requires the filing of a CAT return only where the taxable value of a gift or inheritance, within the same group threshold, exceeds 80% of the value of that group threshold. This 80% threshold value is calculated by aggregating the value of the current gift or inheritance with the value of previous gifts or inheritances received by a beneficiary since 5 December 1991. However, where a gift or inheritance comprises relevant business property and business relief applies, a return must be filed **regardless** of the taxable value of the business property and its proportion of the particular group threshold.¹

¹ Requirement introduced by Finance Act 2020 (section 55), w.e.f. 19 December 2020.

12.3 Operation of the Relief

The relief operates as follows:

- (i) the taxable value of the gift or inheritance is ascertained using the normal CAT rules;
- (ii) the taxable value of the gift or inheritance attributable to the relevant business property is then ascertained²;
- (iii) the portion of that value on which relief can be granted is ascertained³;
- (iv) the relief is calculated by reducing the figure at (iii) by 90%;
- (v) finally, the figure at (i) is reduced by the amount of the relief at (iv).

More details on how the relief is calculated are contained in [paragraph 12.6](#).

12.4 Conditions for Granting the Relief

Before the relief can be granted **all** of the following questions must be answered in the affirmative:

- (i) Was the gift or inheritance taken on or after 11 April 1994?
- (ii) Does the gift or inheritance consist of relevant business property?
- (iii) Was the relevant business property comprised in the disposition (or owned by the disponent or his/her spouse) for the specified period immediately prior to the gift or inheritance?

Even where all the above questions are answered in the affirmative, the value of the relevant business property may still be restricted – see [paragraph 12.5.5](#).

Each of these matters is considered in detail in [paragraph 12.5](#).

12.5 Conditions Step-by-Step

12.5.1 Was the Gift or Inheritance taken on or after 11 April 1994?

This is a question of fact. Gifts or inheritances taken before 11 April 1994 do not qualify for business relief.

² In calculating this taxable value special regard must be had to the treatment of liabilities (see [paragraph 12.6](#)).

³ In determining the value of relevant business property on which relief can be granted certain assets may have to be left out of the account. In addition, the replacement property and the successive benefits rules may operate to restrict the value on which relief can be granted (see [paragraph 12.5.4](#)).

12.5.2 Does the Gift or Inheritance consist of Relevant Business Property?

12.5.2.1 General

Business relief is granted on the transfer of relevant business property. The relief applies to the transfer of a business, or a share in a business, or the shares or securities of a company carrying on a business. The relief does not apply to a gift or inheritance of individual assets used in a business unless they transfer with the business or interest in the business.

12.5.2.2 Transfer of a Business, or a share in a business, or the shares or securities of a company carrying on a business

Where the entire business and all of the business assets are transferred, business relief will apply (provided all other conditions are satisfied).

Where substantially the whole of the business is transferred but some of the business assets are not transferred, the position needs to be examined by reference to the facts of the case. Relief may be available where substantially the whole of the business assets is transferred to a beneficiary and the business continues to be carried on by that beneficiary.

As a general guide, where the transferred assets of a business account for at least 90% of the total value of the business and the business continues to be carried on by the beneficiary, relief should be available. However, this is not a conclusive test and Revenue will consider cases marginally outside of this threshold by reference to the facts of each case.

Example Business Relief Allowed

Under his will a deceased farmer left all of his farmland to one particular nephew and left his farm implements and machinery to another nephew. The farmland comprised 268 acres and was valued at €207,000. The farm implements and machinery, which were old and largely obsolete, were valued at €2,000.

The nephew who inherited the farmland was not previously a farmer. On inheriting the farmland he started to farm the land.

The question to be determined is whether the nephew who inherited the farmland had inherited property consisting of a business or interest in a business which qualified for business relief or whether he had merely inherited an individual asset (farmland) used in the business which did not qualify for business relief.

Based on these facts, the nephew who inherited the farmland should **not be refused** Business Relief because the farm implements and machinery (valued at less than 10% of the value of the land) were not transferred with the land.

The nephew who inherited the farm implements and machinery is not entitled to Business Relief.

Example Business Relief Not Allowed

Anne started a crafts business in her own premises twenty years ago. The crafts are purchased by local shops for sale to the public. She works in the business with her nephew, Vincent, as her employee. She wishes to give a gift of the premises to Vincent but the business will continue to be hers. The premises will not qualify as relevant business property and therefore business relief is not available.

If Anne had transferred the premises with the business, the premises would have formed part of the relevant business property.

12.5.2.3 Definition of “Relevant Business Property”

Section 93 (1) CATCA 2003 provides that business relief is available on gifts or inheritances of **“relevant business property”**.

“Relevant business property” is defined as:

- (a) a business i.e. the business of a sole trader (e.g. shop, pub etc.);
- (b) an interest (i.e. share) in a business. Typical situations where an interest in a business might pass would include a sole trader going into partnership with a family member or a partner wishing to retire and transferring his or her interest in the partnership to another person;
- (c) **unquoted** shares or securities⁴ of a company carrying on a business provided that:
 - the beneficiary will, on the valuation date and **after**⁵ taking the gift or inheritance, either;
 - (i) control the powers of voting relating to all questions affecting the company as a whole which if exercised would yield more than 25% of the votes capable of being exercised thereon.

Example

⁴ See [the Appendix](#) for details on the meaning of this term

⁵The wording of section 93(1)(b), (c) and (d) is: “*either by themselves alone or together with other shares or securities in that company in the absolute beneficial ownership of the donee or successor on [the valuation date]*”.

ABC Ltd., a private company, was incorporated in Ireland on 1 January 2000. The shares are held as follows:

- Mary Murphy 33¹/₃%
- John Walshe 33¹/₃%
- Michael Reid 33¹/₃%

Mary wishes to gift her holding to her son, Maurice. Following the gift Maurice will have a 33¹/₃% holding. The shares will qualify as relevant business property.

Where a company has a class of shares or securities which only carry voting rights limited to the winding-up of the company and/or to questions primarily affecting shares of securities of that class, this class is disregarded in determining whether the beneficiary meets the above conditions (section 93(2)); **or**

- (ii) own any percentage of the aggregate nominal value of all the issued shares and securities of the company and **be in control of the company** within the meaning of section 27 of the CATCA 2003 **or**
- (iii) own 10% or more of the aggregate nominal value of all the issued shares and securities of the company and have worked as a **full-time working officer or employee in the company** (or in the case of a group, for any company or companies in the group) throughout the period of 5 years ending on the date of the gift or inheritance.
A “full-time working officer or employee” is defined as someone who devoted substantially the whole of his or her time to the service of that company (or in the case of a group to companies within the group) in a managerial or technical capacity (section 90(1));

Example

GHI Ltd., a private company was incorporated in Ireland on 1 November 2006. It has issued only one class of share. These shares are held as follows:

- John Buckley (parent) 40%
- Mary Buckley (parent) 40%
- Michael Buckley (son) 20%

Catherine, who is not related to the Buckleys, has worked full-time (as accounts manager) in the company since it was incorporated. John has decided to gift Catherine sufficient shares to give her a 10% shareholding.

The shares will qualify as relevant business property provided Catherine continues to work full-time in the company until the date of the gift.

(d) **quoted**⁶ shares or securities of a company carrying on a business but only if all of the following conditions are met:

(i) the donor owned the shares or securities⁷ immediately prior to the disposition (gift/inheritance/settlement);

(ii) the shares or securities were unquoted at:
– the time they were acquired by the donor, or at
– 23 May, 1994,
whichever is the later date; and

(iii) all of the other (i.e. other than being “unquoted”) conditions set out under (c) above are satisfied; or

(e) Land, buildings, plant and machinery⁸ (referred to hereinafter as “land, etc.”) which are **used** in a business carried on by a company or a partnership but which are **owned** by the donor rather than by the company or the partnership, will qualify for business relief provided that:

(i) in the case of a company, the company was controlled by the donor immediately before the gift or inheritance (“control” being defined as controlling the powers of voting on all questions affecting the company as a whole which if exercised would have yielded a majority (i.e. over 50%) of the votes capable of being exercised thereon. As with unquoted shares (see (c) above) votes attaching to shares with limited rights will be ignored for these purposes.

[Note: In many family run companies each spouse or civil partner holds 50% of the share capital, as a result of which neither has “control” of the company - and neither would therefore qualify for business relief. Section 83 Finance Act 2014 addressed this, in relation to gifts or inheritances taken on or after 23 October 2014, by providing that the control requirement is satisfied in the case of spouses and civil partners, where, **taking their shareholdings together**, they control the company], or

⁶ This exception to the general rule that relief be available only on unquoted shares or securities is made so that the very availability of the relief does not deter expanding family businesses from seeking a quotation on the Stock Exchange.

⁷ Or other shares or securities of the same company which are represented by these shares or securities.

⁸ If there is a doubt about whether a particular asset is plant or machinery, the income tax rules are applied. In general terms “plant” encompasses whatever apparatus is used in the business for the purposes of the business. It includes all goods and chattels, whether fixed or movable, which are permanently employed in the business. It does not include stock-in-trade bought or made for sale.

in the case of a partnership, the disponer was a partner immediately before the gift or inheritance (Section 93(2));

- (ii) The land, etc., was used wholly or mainly for the purposes of the business concerned for a continuous period of 2 years immediately prior to the date of the inheritance in the case of an inheritance taken on the death of the disponer and in all other cases for a continuous period of 5 years prior to the date of the gift or inheritance (Section 100 (4)(a)).

If at any time during the required period of use, the land, etc., was used for the personal benefit of the disponer, or his or her relatives, then it cannot be treated as if it were used **wholly or mainly** for the purposes of the business concerned (Section 100(7)).

In the case of land or buildings only, if part of any land or a building was used exclusively for the purposes of the business concerned throughout the required period but the land or building as a whole does not satisfy the "wholly or mainly" test, then that part may be treated as a separate asset (Section 100(5)).

Replacement property can qualify as relevant business property under certain conditions (section 95). See paragraph [12.5.4](#) for details.

- (iii) the land, etc., is transferred at the same time as the partnership interest or the shares or securities (section 93(5));
- (iv) the interest in the business or the shares or securities also qualified as relevant business property immediately before the gift or inheritance (section 93(5)); and
- (v) the conditions laid down in paragraph [12.5.4](#) relating to period of ownership are satisfied in relation to both the land, etc., and the business/shares or securities.

Example

Liam became a partner in a firm of solicitors in 1998. He bought the building in which the business is carried on in 2002. He has decided to retire. His share in the business including the building was transferred to his daughter in 2022. As both the interest in the business and the building were transferred at the same time the building will qualify as relevant business property.

12.5.2.4 Definition of "Business"

A "business" **includes** a business carried on in the exercise of a profession or vocation but does not include a business carried on otherwise than for gain (section

90(1)). In other words, all the usual types of business carried on for profit are included as are the various professions (e.g. law, medicine, accountancy) and vocations.

To qualify for the relief, therefore, two tests have to be satisfied i.e.

- (i) a business must be carried on; and
- (ii) the business must be carried on for gain.

The term "business" involves a wider concept than trade. The courts have defined it, for example, in the following terms:

- *"it denotes the carrying on of a serious occupation"*
(Lord Diplock, *Town Investments v DOE* [1977] 1 All ER at page 835)
- *"anything which occupies the time and attention and labour of a man for the purpose of profit"*
(Jessel MR *Smith v Anderson* [1880] 15 Ch D page 258)
- *"a serious undertaking earnestly pursued"*
(Widgery J in *Rael Brook Ltd v Minister of Housing and Local Government* [1967] 1 All ER at page 266)
- *"any occupation or function actively pursued with reasonable or recognisable continuity"*
(Lord Cameron in *Morrison's Academy* [1978] STC at page 8).

In relation to rented property, the term was analysed in some detail by Diplock J. in the Privy Council case of *American Leaf Co. v Director-General* [1979] AC 676 at page 684:

"In the case of a private individual it may well be that the mere receipt of rents from property that he owns raises no presumption that he is carrying on a business. In contrast, in their Lordship's view, in the case of a company incorporated for the purpose of making profits for its shareholders any gainful use to which it puts any of its assets prima facie amounts to the carrying on of a business. Where the gainful use to which a company's property is put is letting it out for rent, their Lordships do not find it easy to envisage circumstances that are likely to arise in practice which would displace the prima facie inference that in doing so it was carrying on a business.

The carrying on of a business, no doubt, usually calls for some activity on the part of whoever carries it on, though, depending on the nature of the business, the activity may be intermittent with long intervals of quiescence in between".

Although businesses not carried on for gain will be fairly rare, they are considered to include, *inter alia*:

- certain clubs e.g. golf clubs, tennis clubs, etc.
- the management and provision of leisure activities for the benefit of the shareholders and their friends, e.g. fishing or shooting not run on a genuine commercial basis (alternatively it may be argued that these are not business activities - see *Customs and Excise Commissioners v Lord Fisher* [1981] 2 All ER 147).

12.5.2.5 Excluded Businesses

General

The following types of business (so called “excluded businesses”) are specifically excluded from the relief (section 93(3)):

- a) businesses which consist wholly or mainly of dealing in currencies, securities, stocks or shares, land or buildings; and
- b) businesses which consist wholly or mainly of making or holding investments; If the **wholly or mainly** test is satisfied and the business is an excluded business then **no** part of the business, or the shares or securities (in the case of a company) will qualify as relevant business property.

If, however, the wholly or mainly test is not satisfied then the business, etc., may qualify as relevant business property but, as will be seen in [paragraph 12.5.5](#) below, certain assets must still be ignored when valuing the relevant business property for the purposes of the relief.

“Wholly or Mainly” Test

a) General

“Mainly” should be treated as meaning over 50%.

In applying the wholly or mainly test the position should normally be looked at over a reasonable period prior to the gift or inheritance, to allow for temporary fluctuations in activity and performance (See *FPH Finance Trust Ltd v CIR* 26 TC 131). Where, however, there has been a clear and definite change in direction, only the position after that change should be taken into account.

Where the majority of **both** the asset value and profit of the business is attributable to trading activities, relief is generally considered to be available. Conversely, relief will generally be unavailable where the majority of the asset value and income is attributable to investment and the trading turnover is fairly modest.

Where there appears to be a case for treating a company as having a mainly investment business because, *inter alia*, more than half its net income is derived

from investments, a useful check may be to ascertain if “management expenses” are being deducted under section 83 Taxes Consolidation Act 1997. This section provides that “management expenses” may be deducted from the profits of resident investment companies and an “investment company” is defined as “any company whose business consists wholly or mainly in the making of investments and the principal part of whose income is derived therefrom...”. If deductions are being made, this may be cited in support of the mainly investment argument. The absence of a deduction, however, should not be regarded as in any way precluding a mainly investment argument, where the facts otherwise support it.

b) Holding Companies and their subsidiaries

Where a company holds shares in subsidiaries, those shares constitute investments. However, section 93(4) CATCA 2003 provides that a holding company will not be disqualified from the relief provided its subsidiaries are not engaged in excluded businesses (see [paragraph 12.2.5.2](#)).⁹

In practice, where the company is being valued on a group basis by reference to the consolidated accounts, it will generally be acceptable to apply the wholly or mainly test in section 93(3) to the total group activities without detailed examination of each subsidiary.

However, in cases of uncertainty, or where the parties require it, the test should be applied strictly with separate consideration given to the holding company and its individual subsidiaries. For this purpose regard should generally be had to the value of the individual subsidiaries rather than the level of any dividends paid to the holding company, as the latter may be somewhat arbitrary and subject to manipulation.

c) Companies that are Members of a Group

Section 99 provides two important restrictions to the relief. The first concerns the case where a company is a member of a group (see [Appendix](#)) and the business being carried on by any other company in the group is an excluded business. In such cases, unless the excluded business consists wholly or mainly of holding land or buildings wholly or mainly occupied by another member (or other members) of the group, the value of the shares or securities in the company must be reduced for the purposes of business relief, (but not for the purposes of CAT), to what it would be if the subsidiary(ies) and/or associated companies carrying on the excluded businesses were not member(s) of the group.

This exclusion may possibly have a substantial effect on the value eligible for business relief. For example, where a group was worth €1m with 30% of its value

⁹ See [Appendix](#) for definitions of “holding company” and “subsidiary”.

attributable to property investment conducted by a subsidiary, 30% of the value transferred might be excluded from the relief.

Where the shares or securities qualify for relief but the group business includes an excluded business, officers should (except so far as already ascertained) ask for the name of each subsidiary or associated company, details of its activities and a copy of the last year's accounts prior to the valuation date. Where it then appears that any of the subsidiaries/associated companies is engaged wholly or mainly in carrying on an excluded business, the parties should be advised of the need to agree a further value for the shares or securities for business relief, excluding from the group each subsidiary or associated company which is carrying on an excluded business.

Secondly, section 99(2) provides that the value of (unquoted) shares or securities must be reduced if the shares or securities of another company in the group are quoted on the valuation date unless:

- (i) the disponent owned the unquoted shares or securities¹⁰ immediately prior to the disposition; and
- (ii) the quoted shares or securities were unquoted at:
 - some time prior to the gift or inheritance when they were in the beneficial ownership of the disponent (or a member of the group while being a member of that group), or
 - 24 May 1994,

whichever is the later date.

Meaning of “Dealing”

“Dealing” means dealing as a principal and not as an agent. Thus the normal activities of, for example, estate agents, merchant bankers, investment advisers and stockbrokers are not excluded businesses.

The reference to dealing in land and buildings in section 93(3) does not include a genuine property development company holding a number of completed properties for sale or a land bank held for development purposes.

Care should, however, be taken to identify a building or development company which retains and lets its completed property, as this may, over time, convert the business into one of mainly investment holding.

¹⁰ Or other shares or securities of the same company which are represented by those shares or securities.

“Dealing” is restricted to the six categories specified in section 93(3) i.e. currencies, securities, stocks or shares, land or buildings. It does not, therefore, relate to, for example, commodities or money lending (and, provided this involved regular transactions, it could not be regarded as an “investment holding”).

Meaning of “Investment”

The word “investment” is considered to extend wider than the 6 categories specified in Section 93(3), i.e. currencies, securities, stocks or shares, land or buildings. A body of case law exists in relation to the distinction between investment and the operating of a trading business.

For the purposes of this relief, the letting of **furnished or unfurnished accommodation**, whether on a long or short-term basis, and whether for holiday or other purposes, should generally be treated as “investment”¹¹. While there may be an element of the provision of services in conjunction with the letting of the property, the level of such services would have to be exceptional to supplant the rental aspect as the major activity for the purposes of the “wholly or mainly” test¹².

The letting of **furnished caravans**, as opposed to furnished houses and flats, does not constitute “investment”. On the other hand the letting of pitch sites would. Most caravan sites offer a range of letting options and usually also provide some facilities. In some cases this may be confined to purely basic facilities such as water and electricity or it could extend to providing a full holiday package including shops, a swimming pool, club bar and entertainment. The availability of relief in each case must therefore depend on the particular facts.

As a general guideline, where a business's own furnished caravans account for at least half the total number of lettings it may be appropriate to accept the business as primarily trading, irrespective of the facilities provided (assuming there are no other “investment” activities). Conversely, where most of the lettings relate to pitch sites and facilities are restricted to the provision of electricity, water, toilets and a shop (and there are no other activities) relief should be denied on the grounds that the business was mainly engaged in the exploitation of its property rights and, therefore, “investment”.¹³

“Investment” is not considered to include **office equipment rental or plant and vehicle hire**.

¹¹ *Gittos v. Barclay (Inspector of Taxes) [1982] STC 390* and *Griffiths (Inspector of Taxes) v. Jackson/Pearman [1983] STC 184*

¹² Special Commissioners decision in *Salter (BP 310/88)*

¹³ *Griffiths (Inspector of Taxes) v. Jackson/Pearman [1983] STC 184*

Regular dealing in **commodities** is accepted as business activity and not “investment”.¹⁴

As a consequence of a court decision the letting of land on **conacre** is also considered a business activity and not “investment”.¹⁵

Forestry/Woodland Operations

The carrying on of a **forestry or woodland business** may appear to be in the nature of making or holding investments in view of the long-term nature of the realisation of profits or gains; depending on the particular crop, it may take up to 25 years for commercially grown trees to mature and produce cut timber. Other ‘investment’ characteristics are the significant variations in the level of activity and income or expenditure flows over the maturation period and the absence of a need for direct employment. However, the nature of the business is that there is activity, although front and back-loaded in the planting and felling stages, and the engagement of external contractors when required.

Taking all aspects of a forestry or woodland business into account, the business should not be regarded as the making or holding of investments.

Agricultural Property

Agricultural property in incorporated or unincorporated form is eligible for Business relief.

12.5.3 Does the business need to be carried on wholly or mainly in the State on the date of the Gift or Inheritance in order to qualify for business relief?

The Finance Act 2001 removed the condition that the business must be carried on wholly or mainly in the State to qualify for relief. The Finance Act 2001 also removed the condition that the company must be incorporated, and the assets situated, in the State.

The changes apply to gifts/inheritances taken on or after 15 February 2001.

12.5.4 Was the Relevant Business Property comprised in the Disposition for the specified period?

¹⁴ CTO Scotland case of Gardiner and subsequent case of the Ann B. Wilson Settlement (BP 301/86)

¹⁵ A Circuit Court decision from May 2008 found that the letting of lands for grazing on conacre was a business and that the business did not fall within the exclusion of “making or holding investments” in section 93(3).

12.5.4.1 General

To safeguard against businesses or shares or securities being acquired merely for the purposes of getting business relief, relevant business property will not qualify for the relief unless it was comprised in the disposition for a minimum period prior to the date of the gift or inheritance i.e. relevant business property must have been owned either by:

- the disponent* alone, or by the disponent and his or her spouse; or
- by the trustees (in the case of settlements) alone, or by the trustees, the disponent and/or the disponent's spouse,

for a continuous period of:

- 2 years immediately prior to the date of inheritance in the case of an inheritance taken on the death of the disponent, or
- 5 years in all other cases (section 94).

The 2 year or 5 year rule is referred to as the **minimum ownership period**.

The minimum ownership period is relaxed for:

- replacement property, and for
- successive benefits.

12.5.4.2 Replacement Property (section 95)

Property that has replaced other property will qualify as relevant business property if:

- the replaced property would have qualified as relevant business property but for the minimum ownership period had the gift or inheritance been taken immediately prior to the replacement, and
- in the case of an inheritance taken on the death of the disponent, the replacement property and the replaced property taken together were comprised in the disposition for at least 2 years out of the 3 year period immediately preceding the date of the inheritance, or
- in all other cases, for at least 5 years out of the 6 year period immediately preceding the date of the gift or inheritance.

There is no requirement that the replacement property be of a similar nature to the property it replaced. For instance, the replacement property rules enable a business

*Where the disponent became entitled to the relevant business property on a death s/he is deemed to have owned it from the date of death (section 130).

carried on by a sole trader or by a partnership to be transferred to a company in exchange for shares or securities in that company and still qualify for the relief.

Example

Brendan commenced a drapery business in 1996. He sold the business in 2021 and within 6 months he had bought a newsagents with the proceeds. He decided to give a gift of the new business to his daughter with effect from 1 June 2022. Business relief will apply to the new business because, taken together, Brendan's period of ownership of the drapery and the newsagents amounted to over 5 years in the 6 year period immediately prior to the date of the gift.

If the value of the replacement property exceeds the value of the property it replaced the relief will be restricted to what it would have been had the replacement not been made. If, in the above example, the drapery business had been sold for €100,000 and the newsagents though bought for €150,000 was worth €180,000 on the valuation date the value eligible for relief would be restricted to €120,000 as follows:

$$\begin{array}{rclcl} \text{€180,000} & \times & \frac{\text{€100,000}}{\text{€150,000}} & = & \text{€120,000} \end{array}$$

In deciding whether the relief should be restricted any changes resulting from the formation, alteration or dissolution of a partnership or from the acquisition of a business by a company controlled (within the meaning of section 27 CATCA 2003) by the former owner of the business should be disregarded.

There is no limit to the number of times that relevant business property can be replaced by other relevant business property within the 3- or 6-year period.

12.5.4.3 Successive Benefits (section 97)

If the disponer or his or her spouse had taken a gift or inheritance of property (the earlier benefit) and the disponer had died before either he or she and his or her spouse, had owned the property for the required period (i.e. for 2 years (or for 2 years out of the previous 3 years in cases where the property was replaced – see paragraph 12.5(iv) “**Replacement Property**” above) - the benefit now taken from the disponer (the subsequent benefit) may still qualify for the relief notwithstanding the minimum ownership period provided that the earlier benefit qualified for business relief (on the assumption that such relief existed at that time).

Example

Nuala decided to retire from the family business on 1 June 2023. She gifted her 100 shares (the entire share capital) in PQR Ltd. to her brother, Tom. The gift of the shares qualified for business relief. Tom died suddenly on 1 July 2023 and left what were previously Nuala's shares to his son, John. Business relief will apply notwithstanding the fact that Tom had only owned Nuala's shares for 1 month.

The relief will be limited to the same proportion of the relevant business property in the subsequent gift or inheritance as the taxable value attributable to the relevant business property in the earlier gift or inheritance bore to its market value. If, in the previous example, Nuala had gifted her 100 shares (valued @ €10,000 on 1 June, 2023) to Tom in consideration of Tom giving her €1,000, then the relief available to John in respect of the benefit taken on 1 July, 2023, when the shares were valued @ €11,000, will be limited to €9,900 as follows:

Market value of earlier benefit €10,000

Taxable value of earlier benefit (€10,000 – €1,000) = €9,000

Fraction of subsequent benefit which will qualify for relief

$$\frac{(\text{€}10,000 - \text{€}1,000)}{\text{€}10,000} = \frac{9}{10}$$

Amount of subsequent benefit which will qualify for relief

$$\text{€}11,000 \times \frac{9}{10} = \text{€}9,900$$

If the value of the replacement property exceeds the value of the relevant business property it replaced, the relief will be restricted to what it would have been had the replacement not been made. Again in deciding whether the relief should be restricted any changes resulting from the formation, alteration or dissolution of a partnership or from the acquisition by a company controlled (within the meaning of section 27 of the CATCA Act 2003) by the former owner of the business should be disregarded.

Example

Mary decided to retire from the family business on 1 June 2004. She gifted her 100 shares (the entire share capital) in ABC Ltd. to her brother, Peter, on condition that Peter paid her €1,000. The gift of the shares qualified for business relief. Peter sold the shares and bought a news agency. Peter died suddenly on 1 September 2004 and left the news agency to his son, Damian. On 1 June 1994 the shares were valued @ €10,000. They were sold for €11,000. The news agency cost €12,000 but was worth €15,000 on the valuation date of Damian's inheritance.

Value of subsequent benefit relief restricted to

$$(\text{€}15,000 \times \frac{\text{€}11,000}{\text{€}12,000}) = \text{€}13,750$$

Value of earlier benefit €10,000

Taxable value of earlier benefit

$$(\text{€}10,000 - \text{€}1,000) = \text{€}9,000$$

Fraction of subsequent benefit which will qualify for relief

$$\frac{\text{€10,000} - \text{€1,000}}{\text{€10,000}} = 9/10$$

Value of subsequent benefit (restricted as above) €13,750

Amount qualifying for relief

$$\text{€13,750} \times 9/10 = \text{€12,375}$$

Part of current benefit not eligible for relief

$$\text{€15,000} - \text{€12,375} = \text{€} 2,625$$

There is no limit to the number of times that relevant business property can be replaced by other relevant business property.

12.5.5 Exclusion of Value of Certain Assets

12.5.5.1 General

Section 100 excludes certain assets from the relief. The relevant business property (business/interest/ shares or securities) must have been **owned** for a minimum period prior to the gift or inheritance [paragraph 12.5.4]. It is also necessary (under section 100) to look through the business being carried on to the underlying assets to ensure that each asset has been used for business purposes for a minimum period prior to the gift or inheritance. The value attributable to any asset not so used must be left out of the account when determining what part of the taxable value attributable to the relevant business property qualifies for the relief. A full list of all the assets, the value attributable to which must be left out of the account, is set out in **“Excepted Assets”, “Excluded Property” & “Agricultural Property”**, below.

In practice there are many cases, particularly involving minority shareholdings, where the exclusion of an asset would make little or no difference to the value attributable to the relevant business property.

Where it appears that the effect of the exclusion of a particular asset on the value attributable to the relevant business property will be negligible, the matter should not be pursued.

Where, however, shares are being valued by reference to the capitalisation value of a company, it should be remembered that the value of any substantial non-business asset ought to be added to the capitalisation value of the company and the added value of the non-business asset will clearly have to be excluded from relief.

12.5.5.2 “Excepted Assets”

Section 100(1), (2) and (5) provides that the value attributable to the following assets (known as “excepted assets”) must be left out of the account in determining what part of the taxable value of the relevant business property will qualify for business relief viz.

- i. any non-business assets i.e. investment assets (section 100(2)).

Example

Ciaran, who owns all of the shares in STU Ltd., wishes to gift his shares to his daughter, Liz. STU Ltd. has net assets of €950,000 including quoted shares worth €50,000. Relief is calculated as follows:

Taxable Value prior to relief		€950,000
Value attributable to assets not used for the purposes of the business		€50,000
Amount of taxable value which can benefit from the relief	(950,000 – 50,000)	€900,000
Reduction of 90% on €900,000 =		(810,000)
Revised taxable value after relief	(950,000 – 810,000)	140,000

Where, however, the business concerned is being carried on by a company which is a member of a group any business assets (i.e. business assets other than investment assets) used wholly or mainly for the purposes of a business carried on by any other company in the group will be treated as if they were used for the purposes of the business concerned provided that that other company was a member of the group:

- at the time of the use, and
- immediately prior to the gift or inheritance.

However, business assets used by a company in the group which is wholly or mainly carrying on an excluded business will not be treated as if they were used for the purposes of the business concerned unless the excluded business consists wholly or mainly of the holding of land or buildings wholly or mainly occupied by companies in the group whose business is not wholly or mainly an excluded business.

- ii. any business assets which if owned for at least 2 years prior to the gift or inheritance were not being used wholly or mainly for the purposes of the business for a continuous period of 2 years prior to the gift or inheritance. However, business assets acquired within 2 years prior to the gift or inheritance need not be ignored provided that they were being used wholly or mainly for the purposes of the business for the whole of the period between the date they were acquired and the date of the gift or inheritance. In other words there is no restriction on the acquisition of new assets by an existing business provided the business itself qualifies for business relief and that the assets satisfy the above test;

It should be borne in mind that a subsidiary which is wholly or mainly carrying on an excluded business will in any event be totally left out of account. In other words there is no need to consider the “excepted assets” test in relation to any assets of that subsidiary.

If an asset was used at any stage for the **personal benefit** of the disponent or for a relative (as defined in the CAT Act) of the disponent then it cannot be treated as if it was used wholly or mainly for the purposes of the business concerned (section 100(7)).

Example

YZ Ltd. bought a house in Kerry in 2012 which is used intermittently for corporate entertaining. However, the shareholders use it on a number of occasions each year for family holidays. The house will not qualify for the relief.

This provision is aimed at conspicuous and substantial assets e.g. a mansion house, penthouse flat, private yacht or collection of expensive chattels which – although represented as a business asset – are simply held by (say) a company as a device for providing private benefit to the persons in question.

Where **land or buildings** are not used wholly or mainly for business purposes and prima facie constitute “excepted assets”, section 100(5) gives a measure of relief in respect of the value of any part of the property which is used **exclusively** for the purposes of the business. In this context, exclusive use will embrace such use by another member of the group provided it satisfies the above conditions.

The land or building is to be treated as if it were two separate assets consisting of the part used exclusively for business purposes and the remainder not so used. If the part used exclusively is a viable severable entity for the purposes of valuation (possibly because it has a separate access) it will be valued as such. Otherwise, or if that gives a higher figure, the value should be “such proportion of the value of the whole as may be just”.

The emphasis is on exclusive use for the purposes of the business so that mere casual or intermittent use of part of a building, e.g. as a temporary office, will not qualify under this provision. If, however, a room is equipped as a permanent storeroom or is purpose-built for some business operation, and in either case is solely so used, the value attributable to that part of the property will qualify for relief and the value of the remainder will be excluded as an excepted asset.

It is a question of evidence whether a particular asset was used wholly or mainly for business purposes during the relevant period. With the exception of assets which were used for the personal benefit of the donor or his or her relative, the **requirement as to use should be interpreted reasonably** in the case of those businesses which appear to be pursuing normal business activities rather than serving as a repository for non-business assets.

Because of the diversity of circumstances of valuation, it is not practicable to lay down detailed rules as to the calculation of the part of the value transferred to be excluded in respect of excepted assets. The basic approach, however, is to exclude from relief that part of the value attributable to relevant business property which might fairly be attributed to the value of excepted assets. In essence, the answer lies in the difference between the value of the relevant business property calculated with the excepted asset included and excluded respectively.

The legislation is silent as regards the treatment of debts that may be attributable to excepted assets that are ignored for the purposes of relief. Revenue practice is to treat the value of an excepted asset for business relief purposes as its net value where the debts are specifically charged on the asset. Where debts are not so charged, it is not considered that the asset should be reduced by a proportion of the uncharged debts. The rationale for this is that the shares in a company are being valued as if the excepted asset(s) did not exist in the first place and, therefore, all the other assets should have to bear all of the debts. On this basis, it would not be correct to allow the debts against excepted assets.

12.5.5.3 “Excluded Property”

Section 100(8) provides that any **new business or interest in a business** acquired by a company (or by a company within the same group) within the minimum ownership period must be left out of the account for the purposes of calculating the relief appropriate to the shares or securities of that company.

Example

VWX Ltd., was incorporated in 1988 as a property holding company. In September, 2023 it sold off all its property and purchased a cheese manufacturing business with the proceeds. One of the shareholders wishes to gift her shares in the company to her son, the gift to take effect on 1 August, 2023. While the shares have been owned

for more than 5 years they still will not qualify for the relief because their value is entirely attributable to the value of the new business.

If that new business replaces other business property the value of the new business will not be left out of account provided the combined periods of ownership of both businesses would satisfy the minimum ownership period. Where the value of the replacement business is higher than the value of the property replaced the relief is restricted to what it would have been had the replacement not been made.

12.5.5.4 Agricultural Property

Gifts or Inheritances taken on or after 10 February 2000 of agricultural property can obtain the benefit of business relief. The relief will not be granted to agricultural property in respect of which a donee or successor has obtained agricultural relief. A donee or successor cannot claim both business relief and agricultural relief in respect of the same property.

12.6 Calculating the Relief

12.6.1 General

As already seen in paragraph [12.3](#) a number of steps have to be gone through before the relief can be calculated. Businesses not being carried on for gain and excluded businesses do not qualify as relevant business property.

12.6.2 Business or an Interest in a Business

Step (i) Calculate the taxable value attributable to the value of the business interest. For this purpose, the value of the business or (interest) is the net value. The net value is arrived at by reducing the market value of the assets comprised in the gift or inheritance and which are used in the business (including goodwill) by the market value of any liabilities (to which the gift or inheritance is subject) incurred for the purposes of the business (e.g. borrowings). (Section 98(b)).

In the case of a partnership, only partnership assets and partnership liabilities are to be taken into account. (section 98(c)).

In deciding whether a particular asset was used in the business the accounts and information supplied should be examined to see how the assets shown (in particular, cash, bank accounts, building society accounts and similar assets) were used prior to the gift or inheritance. Any assets not used in the business are to be omitted when arriving at the net value.

In calculating the taxable value attributable to the value of the business (or interest) the following general rules should be applied to the treatment of liabilities/consideration where the acquisition consists of both relevant business property and other property e.g. an inheritance of residue consisting of a business, land, etc. and other non-business property:

- | | |
|--|--|
| Deduct from the value of the business | (i) all liabilities payable out of residue which were incurred for the purposes of the business (section 98); and |
| Deduct from the value of the other property | (ii) all liabilities payable out of residue which were an encumbrance on the business (section 28(11), CATCA 2003) whether or not incurred for the purposes of the business; and |
| | (iii) any other liabilities (or consideration) provided that where the value of the other liabilities exceeds the value of the other property then the excess should be deducted from the value of the business. |

Step (ii) It must be decided whether any part of the taxable value attributable to the value of the business (or interest) is attributable to the value of any of the items listed in [paragraph 12.5.5](#) (these will generally have already been excluded in arriving at the net value). If it is then the value so attributable must be deducted to arrive at the value on which relief will be granted.

Step (iii) Having calculated the value attributable to non-excepted assets, etc., it is then necessary to restrict that value if:

- (i) the replacement property rules apply and the value of the replacement property exceeds the value of the property it replaced – see paragraph 12. for an example of how to restrict the relief; or/and
- (ii) if the successive benefits rule applies and the taxable value attributable to the earlier gift or inheritance was less than its full value (e.g. because some consideration was paid or because the relief was restricted in some other way) – see [paragraph 12.5.4](#) “**Successive Benefits**” for an example of how to limit the relief.

The resultant figure is the value on which relief can be granted.

Step (iv) Calculating the Relief:

The taxable value of relevant business property is reduced by a flat 90% and the resulting figure equals the amount of the business relief applicable.

Step (v) The amount of relief should be deducted from the figure at step (i).

12.6.3 Shares or Securities of a Company carrying on a Business

Step (i) Calculate the taxable value attributable to the shares or securities.

Step (ii) It must be decided whether any part of the taxable value attributable to the shares or securities is attributable to:

- the value of the shares or securities of any company in the group carrying on excluded businesses, and
- the value of any quoted shares or securities ([paragraph 12.5.2](#) **“Wholly or Mainly” Test** – subparagraph (c)).

If it is, then the value so attributable must be deducted to arrive at the value on which relief will be granted.

Step (iii) Follow steps (ii), (iii), (iv) and (v) in paragraph 12.6 “Business or an interest in a business (above).”

Where an “excepted asset” is charged or encumbered at the valuation date, the net value of the asset should be looked at. However, it is not considered that an “excepted asset” should be reduced by a proportion of the uncharged debts. This is because we are essentially concerned with comparing the value of the shares if the excepted asset was removed from the company – in which case the other assets would have to bear all the debts.

This does not preclude taking into account the need for sufficient liquidity to cover the payment of liabilities in determining what constitutes an excepted asset in the first place – particularly as regards the amount to be treated as surplus cash. However, once the amount of cash and/or other assets to be treated as “excepted assets” have been determined, they should not be reduced further.

12.7 Clawing Back the Relief (section 101)

For gifts and inheritances received on or after 1 January 2024, section 101 CATCA 2003 provides for the relief to be withdrawn where, within the **6-year period** commencing on the **valuation date** of the gift or inheritance, the business property, or any business property which replaced it:

- ceases to qualify as relevant business property, except where this is due to bankruptcy or where the company has ceased to trade as a result of a *bona fide* winding-up on the grounds of insolvency, or

- is **disposed of**, in whole or in part, and is not replaced within one year by other property (other than quoted shares or securities or unquoted shares or securities to which section 99(2)(b) relates¹⁶) that is relevant business property.

For gifts and inheritances received prior to 1 January 2024, the relief is to be withdrawn where, within the **6-year period** commencing on the **date of the gift or inheritance**, the business property, or any business property which replaced it:

- ceased to qualify as relevant business property, except where this was due to bankruptcy or where the company has ceased to trade as a result of a *bona fide* winding-up on the grounds of insolvency, or
- was **sold, redeemed or compulsorily acquired** and was not replaced within one year by other property (other than quoted shares or securities or unquoted shares or securities to which section 99(2)(b) relates¹⁷) that was relevant business property.¹⁸

Where business relief is withdrawn, the tax is recalculated on the benefit as though the asset on which the relief is to be clawed back was not a business asset. If only part of the relevant business property, or part of any replacement property, ceases to qualify for the relief, the clawback will relate only to that part.

The clawback provisions will not apply:

- where the beneficiary dies before the event that would otherwise trigger the clawback (section 101(2)(ii)),
- where relevant business property was transferred from a transferor company to a successor company as a result of a merger or a division (section 101(4)(b)),
- to any land, building, plant or machinery, or any replacement land, building, plant or machinery, for so long as they are used for the purposes of the business concerned (section 101(2)(i)).

12.7.1 Clawback Provisions Relating to Development Land (section 102A)

Section 102A CATCA 2003 provides for an extended clawback period where business

¹⁶ See [12.5.2.5](#).

¹⁷ See [12.5.2.5](#).

¹⁸ Finance (No. 2) Act 2023 extended the events that give rise to a clawback of the relief under section 101(2)(b) to include any disposal of relevant business property. The commencement of the clawback period was also amended from the date of the gift or the inheritance to the valuation date of the gift or inheritance.

relief has been granted in respect of development land.

For gifts and inheritances received on or after 1 January 2024, the clawback period in relation to a disposal of development land is extended for a further four years commencing on the sixth anniversary of the date of the **valuation date** of the gift or inheritance.

For gifts and inheritances taken **before 1 January 2024**, the extended clawback period commences on the sixth anniversary of **date of the gift or inheritance**.

The amount of the clawback relates to the development potential of the land and not its full value. A clawback of relief granted on development lands cannot be avoided by reinvestment of the proceeds.

12.7.2 Filing Obligations

Where business relief is claimed, the beneficiary is required to file an IT38 CAT return regardless of the value of the benefit or whether any CAT liability arises (section 46 CATCA 2003).

Where a clawback of business relief applies, the beneficiary is required to file an additional IT38 CAT return to reflect the clawback of relief and pay any outstanding tax due (sections 46 and 101 CATCA 2003).

The IT38 CAT Return must be filed electronically through myAccount or Revenue Online Service (ROS).

12.7.3 Examples

Example 1

Sarah takes a gift of relevant business property from her father on 1 June 2024. She claims business relief on the gift and files an IT38 CAT return as required. In 2025, Sarah sells the property and does not replace it with other relevant business property within one year. As the property is sold within 6 years of the valuation date of the gift, the sale of the property triggers a clawback of the business relief claimed by Sarah. Tax is chargeable as if the reduction in taxable value provided for in section 92 CATCA 2003 does not apply. Sarah must file an additional IT38 CAT return and pay any outstanding tax due.

Example 2

Erica takes an inheritance of relevant business property from her father in 2019 and claims business relief in respect of same. In 2020, Erica gifts the property to her spouse, Ian. As gifts and inheritances between spouses are exempt from CAT, Ian is not chargeable to CAT on the gift. Ian sells the property in 2021. As the property is sold within 6 years of the date of Erica's inheritance from her father, Ian's sale of the

property in 2021 triggers the clawback of the business relief claimed by Erica in 2019. Tax is chargeable as if the reduction in taxable value provided for in section 92 CATCA did not apply. Erica must file an IT38 CAT return and pay any outstanding tax due.

Example 3

Tim takes an inheritance of relevant business property from his father in 2020 and claims business relief in respect of same. In 2022, Tim passes away. His spouse, Ellen, takes an inheritance of the same property from Tim. As gifts and inheritances between spouses are exempt from CAT, Ellen is not chargeable to CAT on the inheritance. Ellen sells the property in 2023. Although the property is sold within 6 years of the date of Tim's inheritance from his father, there is no clawback of the relief claimed by Tim in 2020 as he died before the property was sold.

12.7.4 COVID-19 Clawback Relief

A temporary concession from the clawback provisions applied where a business temporarily ceased to trade due to COVID-19 restrictions. As all COVID-19 restrictions (outside of hospitals and medical settings) ended during 2022, the concession no longer applies.

In circumstances where a person relied on the concession, he or she should retain appropriate evidence which shows that the reason the business ceased to trade on a temporary basis was because of COVID-19 restrictions.

Appendix - Definitions

"Undertaking of substantial interest" shall be construed in accordance with section 314(1)(b) of the Companies Act 2014. This section provides that an undertaking of a substantial interest is one in which a company holds an interest in any class of equity shares equal to 20% or more.

A **"group"** consists of:

- a company,
- its subsidiaries,
- any undertaking of substantial interest of that company or its subsidiaries,
- the subsidiaries of such an undertaking of substantial interest (Section 90(3)).

"holding company" has the meaning assigned to it by section 8(1) of the Companies Act 2014; (Section 90(1)).

"quoted v. unquoted": quoted means quoted on a recognised stock exchange and unquoted means not so quoted (Section 90(1)).

If relief is claimed for shares or securities quoted on the Unlisted Securities Market (USM) on the basis that such shares fall within the meaning of "unquoted" the relief can be allowed but Legislation Branch should be informed.

"Securities" may be treated as including any debt which is either charged on property or is evidenced by a document under seal. Debts such as debentures and loan notes, even if described as "unsecured" may, therefore, rank as securities.

"Subsidiary" is defined in section 7 of the Companies Act 2014 (Section 90(1)).