One might well ask why a private family office is publicly championing the Enterprise Investment Scheme (EIS) and opening its doors to external investors to co-invest.

To answer this question, one has to re-wind the clock almost four years, when a potentially very large inheritance tax (IHT) bill, attributable to a senior member of the family was looming.

This unwelcome combination of significant death duties and very little time to carry out conventional IHT planning led to a costly review (by the current Principal) of some of the more exotic solutions. It will come as no surprise that most were completely unpalatable due to the high level of risk.

However, by chance the Principal came across Chelverton Asset Management Limited (CAM), a specialist manager of quoted and unquote smaller companies. This collaboration resulted in the application of CAM's proven investment philosophy to the acquisition of a number of unquoted UK businesses that qualified for Business Property Relief (BPR), which provides IHT relief after two years (specific pre-clearance was gained from HMRC). In short, this solution removed the impending IHT bill more rapidly than many traditional methods and importantly, enabled the family to retain control of the assets. By March 2012, all eight of the acquired businesses will have met the two year qualifying period and will therefore be clear of IHT and the impending liability will have been extinguished.

Importantly, the team's aim was to reduce (as far as possible) the risks associated with investment in unquoted equities by taking majority stakes (i.e. control and board representation) in long standing, profitable, cash generative UK businesses (as opposed to start ups, high growth or technology orientated businesses), in which vendors, management teams and the investor all own risk capital. From the investee companies' perspective, CAM's long term approach and avoidance of bank debt was very welcome, compared to the prospect of a sale to either a trade buyer or a venture capital trust.

As is often the case with interesting ideas, the family was subsequently approached by other families with similar IHT issues. The original intention was to therefore raise funds for another portfolio of “Business Property Relief” qualifying companies to satisfy this demand. However, following the recent and very welcome changes to the rules surrounding the EIS announced in the budget last April, it became apparent to the team that not only would the new thresholds (effective April 2012) match its own average deal size but also numerous reliefs (30% income tax relief (up to a maximum investment of £500,000 per year), capital gains tax deferral, tax free capital gains (after three years), 100% inheritance tax exemption (BPR Relief) and loss relief) could be offered to investors in place of just the one (BPR relief).

The team are now in the process of converting a pipeline of potential EIS qualifying transactions into a number of interesting opportunities for investors. It is their belief that the primary aim of providing access to attractive smaller companies, with any tax reliefs firmly in second place is the correct approach. Furthermore, the genuine ability to help small UK businesses (vital to the economic recovery) should be an appealing one to both investor and Government.

Mark Sullivan 17.10.11