



BUSINESS RELIEF PLANNING SCENARIOS

THIS SCENARIO IS FOR
ILLUSTRATIVE PURPOSES ONLY

THE SCENARIO

Inheritance tax planning for clients with Power of Attorney



THE CHALLENGE

Mariam is a widow in her mid-80s and can no longer make her own decisions (lost capacity). Before she lost capacity, Mariam created a Lasting Power of Attorney (LPA) and appointed her son Finn as her Attorney. She also made some monetary gifts to her children to help reduce the inheritance tax (IHT) due on her estate. However, Mariam also made Finn aware she would like to ensure her estate is passed on tax-efficiently to her grandchildren.

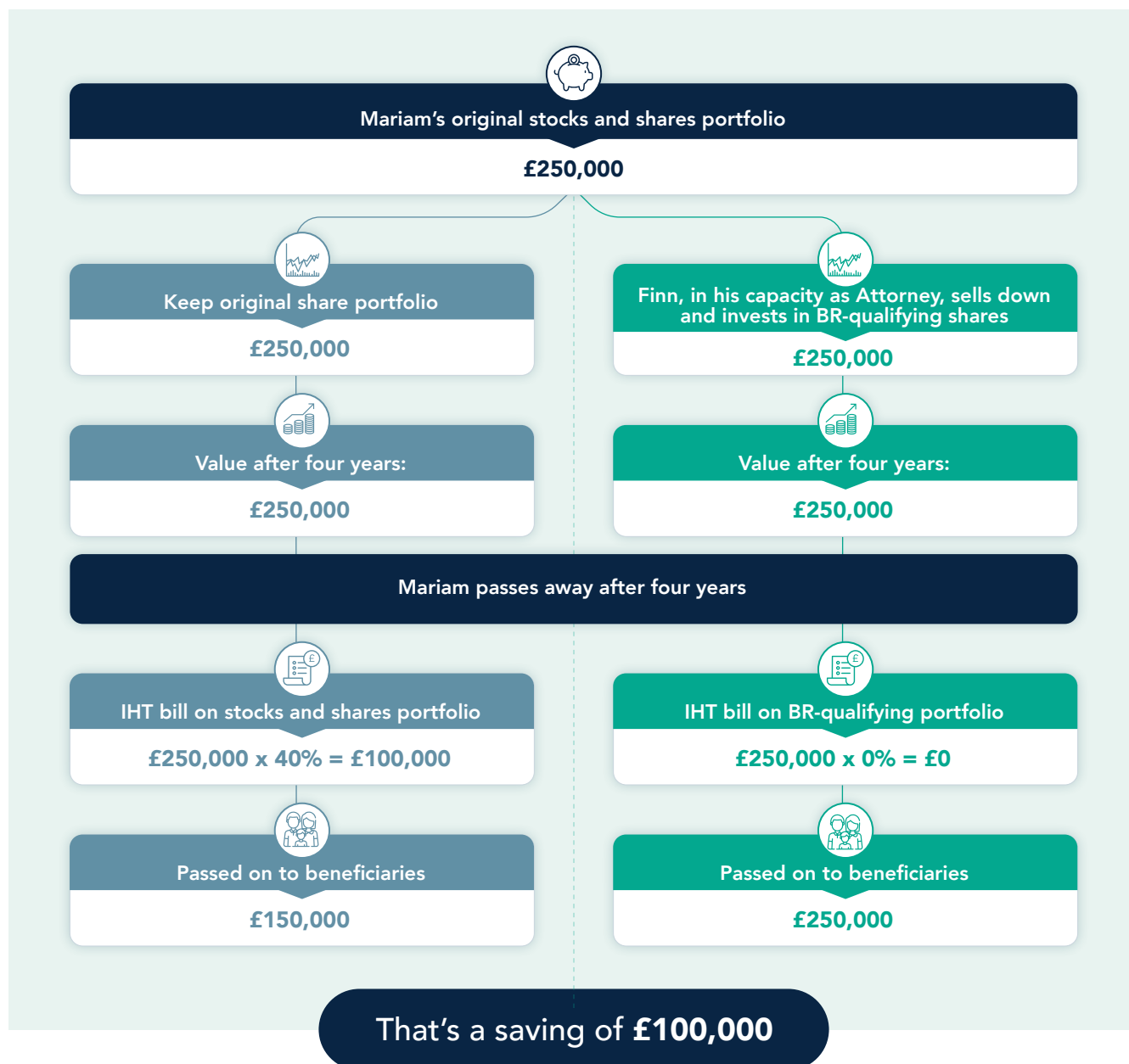
- ▶ Mariam inherited the whole of her husband's estate on his death and now has an estate worth £2m, including a main residence worth £750,000 and a stocks and shares portfolio worth £250,000.
- ▶ Mariam is in a care home but has a significant pension which can meet her ongoing care costs.
- ▶ Finn's financial adviser has explained Mariam will have her own nil-rate band (NRB) of £325,000 and her husband's NRB, which was unused on his death.
- ▶ Mariam has stated her intention to leave her home to her children in her will, which means her estate will also be eligible for the residence nil-rate band (RNRB) of £175,000, as well as the RNRB of her late husband. As a result, Mariam's estate will benefit from combined IHT allowances of £1m.
- ▶ The remaining £1m will be subject to IHT at 40%, meaning that without any further planning, there will be an IHT liability of £400,000 upon her death.

A POTENTIAL SOLUTION

Finn's financial adviser explains that as his mother no longer has capacity, Finn is unable to carry out any trust planning in his role as Attorney, or make any significant gifts, as this would involve giving her assets away. Mariam is also unable to obtain whole of life insurance due to her failing health. Given Mariam's wishes, the adviser therefore suggests Finn sells her stocks and shares portfolio worth £250,000 and re-invests the proceeds into a portfolio of investments capable of qualifying for Business Relief (BR).

- ▶ The advisor explains to Finn that, provided Mariam holds the BR-qualifying shares for at least two years, and they are still held at the time of death, the shares will not be subject to IHT.
- ▶ Finn's adviser also tells him that a BR-qualifying portfolio is a higher-risk investment than Mariam's stocks and shares portfolio, but they agreed it is within her capacity for loss and meets the estate planning objectives she expressed while she still had capacity.
- ▶ Should Mariam regain capacity, the investment means she retains control over her wealth, as the investment will be in her name.
- ▶ The advisor also explains that should Mariam need to access the BR-qualifying shares at some point in the future, Finn can request an income or arrange a sale of some or all of the shares, although once the shares are sold they will no longer qualify for BR.

A potential solution



This is a hypothetical estate planning scenario. It is provided solely for illustrative purposes and does not constitute tax planning advice. It is based on the tax rules as at April 2024 which could be subject to change.

Important Information - On 30 October 2024, the government announced changes to inheritance tax in its 2024 Autumn Budget. One of the changes was that, from April 2026, qualifying holdings in privately owned companies will be eligible for a £1 million allowance providing 100% relief from inheritance tax. Any qualifying holdings over £1 million will be eligible for 50% relief (Autumn Budget 2024, Section 2.51, October 2024). Applicants should seek professional advice to understand how this reform could affect their inheritance tax planning once the reform comes into force.

For simplicity, this illustration does not take into account investment growth or charges for either investment. It is assumed that the NRB and RNRB have already been used. Tax rules and reliefs are subject to change and the availability of Business Relief depends on the company in which the investment is arranged establishing and maintaining its tax status. The availability of tax reliefs for investors will also depend on their personal circumstances.

Contact your Business Development Manager:

020 7201 8990
contact@triplepoint.co.uk

Triple Point
1 King William Street
London EC4N 7AF


Triple Point