



BUSINESS RELIEF PLANNING SCENARIOS

THIS SCENARIO IS FOR
ILLUSTRATIVE PURPOSES ONLY

THE SCENARIO

Ensuring full IHT exemption after the death of the surviving spouse



THE CHALLENGE

Sarah and Jane are married and in their early 90s, and have two grown children from previous marriages. After having their estate valued recently, they have contacted their financial adviser to help them to plan for inheritance tax (IHT), as they want to pass on as much wealth to their two children as possible.

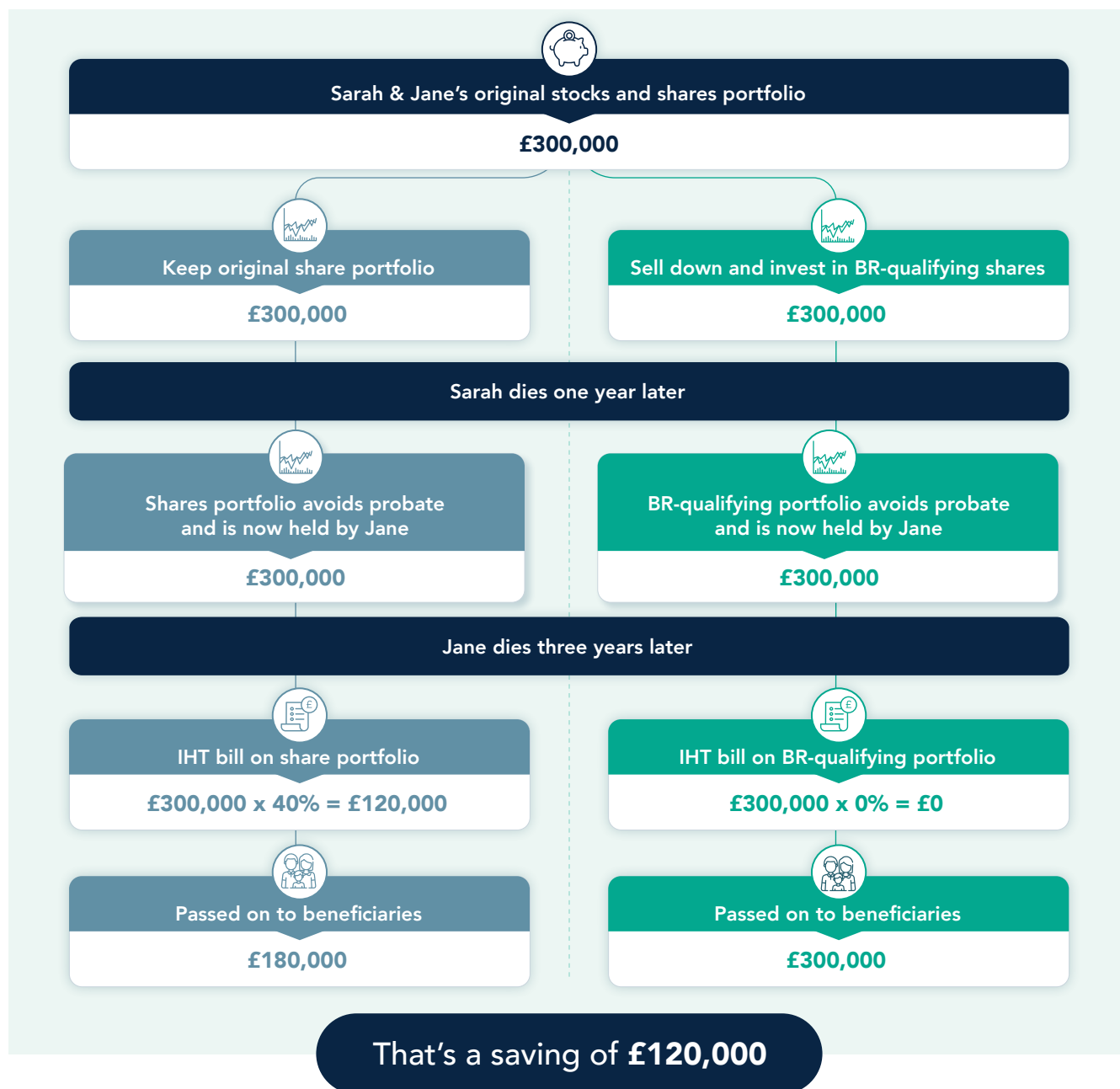
- ▶ Sarah and Jane's combined estate is worth £1.3m, of which £300,000 is invested in a stocks and shares portfolio. They have a good income and their main residence is worth a relatively small part of their estate. They have mirror wills in place, with everything passing to their two children on the second death.
- ▶ Their estate will be entitled to both the nil-rate band (NRB) and the residence nil-rate band (RNRB), making their total IHT allowance £1m.
- ▶ The remaining £300,000 will be subject to IHT at 40%, meaning without further planning their estate will have an IHT liability of £120,000 after the death of the second spouse.
- ▶ While they don't have any major health issues, their adviser suggests whole of life insurance would be very expensive because of their ages.
- ▶ Due to the amounts involved, they would need to survive for seven years before any gifts made become fully exempt from IHT, which they both think is unlikely.

A POTENTIAL SOLUTION

Their financial adviser recommends they sell their stocks and shares portfolio and invest the £300,000 proceeds into a portfolio of investments capable of qualifying for Business Relief (BR).

- ▶ As they are married, only one of them would need to live for two years in order for the shares held in a BR-qualifying portfolio to be exempt from IHT, which they feel is more achievable.
- ▶ They have been advised that should they make a joint application, the investment would avoid probate and the surviving spouse would be able to access it if they needed to.
- ▶ Sarah and Jane have also been told they can make an application in single names if they wish, and on the death of the first spouse, the portfolio would transfer to the surviving spouse once probate had been granted. Probate would not interrupt the two year BR-qualification period.
- ▶ They have also been informed that a BR-qualifying portfolio is a high-risk investment, but they have agreed that it is within their capacity for loss and meets their estate planning objectives.
- ▶ After talking the options through with their adviser, Sarah and Jane make a joint investment.

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.

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