



BUSINESS RELIEF PLANNING SCENARIOS

THIS SCENARIO IS FOR
ILLUSTRATIVE PURPOSES ONLY

THE SCENARIO

Inheritance tax planning for clients who want to retain access and control



THE CHALLENGE

Jessica is 75 and widowed. She knows she has a significant inheritance tax (IHT) liability on the value of her estate and she is keen to carry out estate planning to reduce or eliminate the liability. She doesn't want to make any gifts to her children as one of them is currently separated.

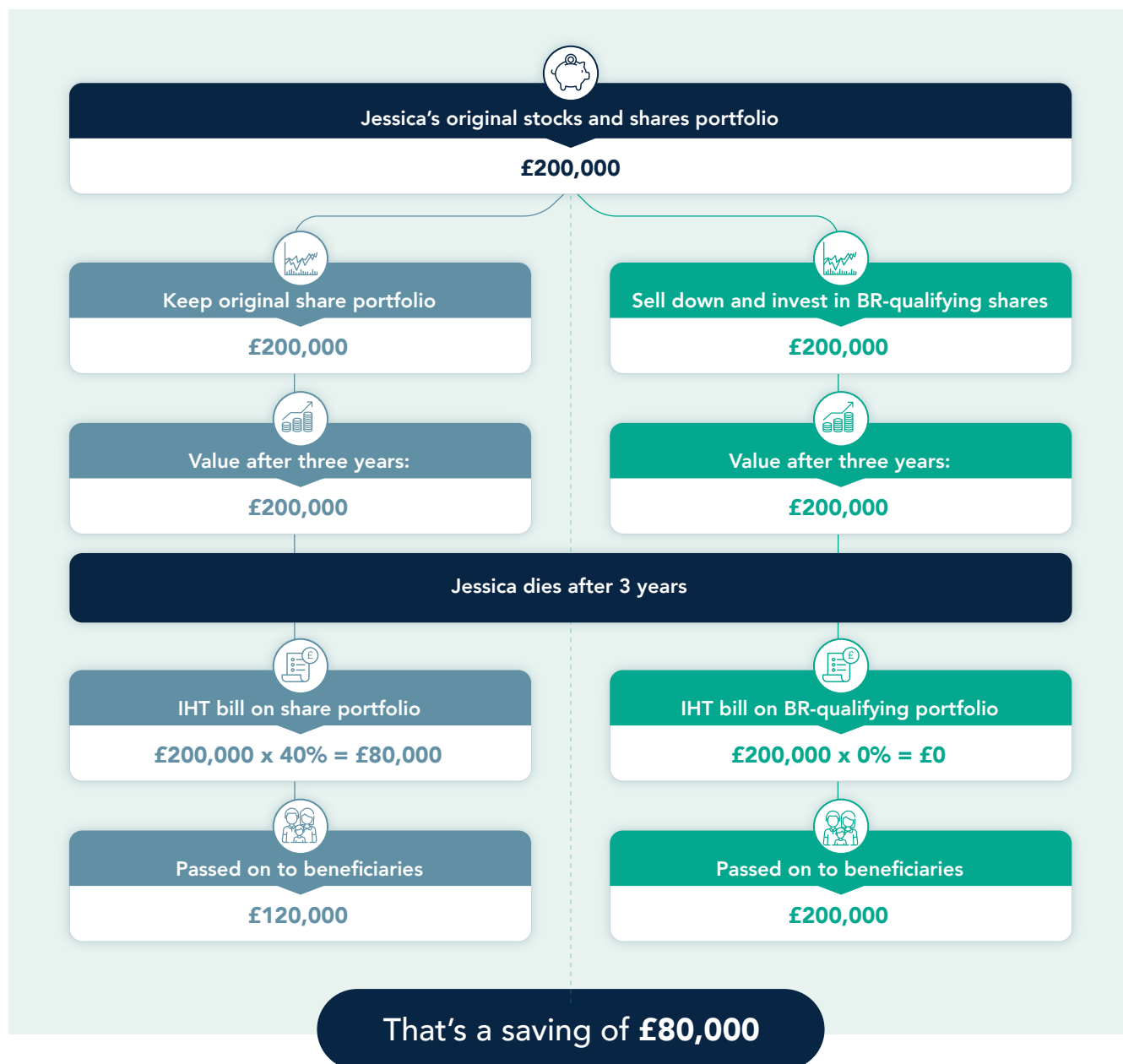
- ▶ Jessica inherited her husband's entire estate on his death and now has an estate worth £1.5m, including a main residence worth £500,000 and a stocks and shares portfolio worth £200,000.
- ▶ She has a good level of income from her pension but is still concerned about being able to pay for any future care costs.
- ▶ Her financial adviser has explained she will have her own nil-rate band (NRB) of £325,000 and her husband's NRB, which was unused on his death.
- ▶ As Jessica intends to leave her main residence to her children in her will, 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, her estate will benefit from combined IHT allowances of £1m.
- ▶ The remaining £500,000 of Jessica's estate will be subject to IHT at 40%, meaning that without any further estate planning, her estate it will have an IHT liability of £200,000 upon her death.

A POTENTIAL SOLUTION

Jessica's financial adviser suggests that she sells her £200,000 stocks and shares portfolio and invests the proceeds in a portfolio of investments capable of qualifying for Business Relief (BR).

- ▶ The adviser explains that provided Jessica holds the BR-qualifying shares for at least two years, and on her death, the shares will not be subject to IHT.
- ▶ Jessica's adviser also informs her that a BR-qualifying portfolio is a higher-risk investment than her stocks and shares portfolio, but she has agreed it is within her capacity for loss and meets her estate planning objectives.
- ▶ Because the investment is in Jessica's name, she will still be able to access the capital (subject to liquidity) should her circumstances change – for example, if her care costs become higher than expected.
- ▶ As she retains control of the investment, she can also take a regular income if she desires, either initially or at any point in the future.
- ▶ Jessica's adviser also explains that after the shares have been held for at least two years, upon her death, the IHT bill due on her estate will be reduced to £120,000 as the £200,000 in BR-qualifying investments will be exempt from IHT.

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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