BUSINESS RELIEF
PLANNING SCENARIOS

THIS SCENARIO IS FOR ILLUSTRATIVE PURPOSES ONLY

THE SCENARIO

Inheritance tax planning for clients with limited life expectancy

THE CHALLENGE

Martha is 85 and recently widowed. Before her husband passed away, they began planning for inheritance tax (IHT) and made some gifts to their children more than seven years ago. Martha is keen to do some further planning for IHT but doesn't want to do any more gifting due to her age.

- Martha inherited her husband's entire estate on his death and now has an estate worth £1.8m, including her home worth £600,000 and a stocks and shares portfolio worth £400,000.
- She has a significant income from her pension which should cover any care costs if needed.
- While Martha's health is very good for her age, she's not sure she will live for a further seven years.
- Martha's financial adviser has explained that her estate will benefit from her nil-rate band (NRB) of £325,000 and her husband's NRB, which was unused on his death.
- As Martha 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, Martha's estate will benefit from combined IHT allowances of £1m.
- The remaining £800,000 of Martha's estate will be subject to inheritance tax at 40%, meaning that without any further estate planning, it will have an IHT liability of £320,000 upon her death.

A POTENTIAL SOLUTION

Martha's financial adviser recommends she sell her stocks and shares portfolio and invest the £400,000 proceeds into a portfolio of investments capable of qualifying for Business Relief (BR).

- The adviser explains that provided Martha holds the BR-qualifying shares for at least two years and on her death, the shares will not be subject to IHT.
- Martha's adviser also informs her that a BR-qualifying portfolio is a higher-risk investment than her stocks and shares portfolio, but Martha has agreed it is within her capacity for loss and meets her estate planning objectives.
- Martha also understands that should she need to access the investment at a later stage, she will be able to draw down an income, subject to liquidity.
- Martha'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 from £320,000 to £160,000 as the £400,000 in BR-qualifying investments will be exempt from IHT.

A potential solution

Martha's original stocks and shares portfolio

£400,000

Keep original share portfolio	Sell down and invest in BR-qualifying shares
£400,000	£400,000
Value after two years:	**Value after two years:**
£400,000	£400,000

Martha dies after three years

IHT bill on share portfolio	IHT bill on BR-qualifying portfolio
£400,000 x 40% = £160,000	£400,000 x 0% = £0
Passed on to beneficiaries	**Passed on to beneficiaries**
£240,000	£400,000

That's a saving of £160,000

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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