GUIDE

Business Relief investments:

An inheritance tax planning solution

This document contains important information and you should read it carefully and keep it safe for future reference.



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IMPORTANT INFORMATION

The contents featured in this publication are for your general information and use only and is not intended to address your particular requirements. Articles should not be relied upon in their entirety and shall not be deemed to be, or constitute, advice. Although endeavours have been made to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No individual or company should act upon such information without receiving appropriate professional advice after a thorough examination of their particular situation. We cannot accept responsibility for any loss as a result of acts or omissions taken in respect of any articles.

Investments carry risk. The value of your investments (and income from them) can go down as well as up, and you may get back less than you invested. Past performance is not a reliable indicator of future results. Investments should be considered over the longer term and should fit in with your overall attitude to risk and financial circumstances.

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Introduction

Inheritance tax (IHT) planning is becoming increasingly important for many families with the wealth transfer over the coming decades predicted to be in the region of £28 trillion.

Additionally, with ongoing changes to pension legislation from 6 April 2027, assets that were previously considered efficient for passing wealth to future generations may no longer receive the same favourable treatment. As a result, many investors are looking for alternative ways to reduce the potential IHT liability on their estate.



Business Relief is a government-approved tax relief designed to encourage investment into qualifying businesses. Business Relief allows individuals to mitigate IHT by investing in qualifying unquoted or Alternative Investment Market (AIM) trading companies. Once these shares are held for at least two years and at the time of death, they qualify for significant IHT relief. The first £2.5m of qualifying, unquoted shares receives 100% IHT relief with assets exceeding this allowance and all qualifying AIM-listed shared receiving 50% IHT relief.

Where is the money invested?

Business Relief investments are typically invested in shares of qualifying UK trading companies.

Depending on the provider, these may include businesses operating across a range of sectors such as healthcare, technology, renewable energy, manufacturing and other commercial activities.

Most providers aim to build diversified portfolios to spread investment risk whilst maintaining eligibility for business relief. Professional investment managers monitor the portfolio and make investment decisions on behalf of investors, ensuring that companies continue to meet the qualifying criteria wherever possible.

It is important to understand that these are not cash deposits or guaranteed products, therefore, the value of the investment will therefore be linked to the performance of the underlying companies and you may get back less than you invested.



Business Relief investments are high risk investment and you could lose your money. They may not be appropriate for the majority if investors.

It is important to seek regulated financial advice.

Key benefits

Business Relief can provide a number of attractive benefits for individuals who are actively seeking to manage an IHT liability whilst retaining flexibility and control over their wealth.

One of the most significant advantages is the potential for the investment to become exempt from IHT after it has been held for a minimum of two years and continues to qualify under the current legislation at the time. This can be particularly appealing as Business Relief allows investors to retain control of their capital unlike gifting strategies where assets are transferred out of an individual's ownership.

As the investment remains in the individual's name, they continue to benefit from any growth or income generated by the underlying business. Although growth is not guaranteed and investment risk remains, this means that the investment has the potential to deliver both estate planning advantages and investment returns.

This can provide reassurance for those who are not yet comfortable in making irrevocable gifts to family members or placing assets into trust arrangements.

Business Relief can be used as a standalone IHT planning solution. For many investors, particularly those who are reviewing their estate planning in light of the potential changes to pension legislation from April 2027, it offers a way of reducing the value of their taxable estate without fundamentally changing how they access or manage their wealth.

Tax rules could change in the future. The value of tax reliefs will depend on an investor's personal circumstances. There cannot be any guarantee that companies that qualify today will remain Business Relief qualifying in the future.

Understanding the risks

As with any investment, Business Relief investments carry risks and should only be considered as part of a broader financial planning strategy.

The underlying companies are typically smaller or medium-sized trading businesses. Whilst these businesses may offer attractive growth opportunities, they can also be more vulnerable to economic downturns, changes in regulation, increased costs or operational challenges.

Business Relief investments are also generally less liquid than investments in publicly traded shares. Whilst most providers offer access to capital. Withdrawals may take longer and cannot always be guaranteed immediately.



It is important to note that Business Relief is based on current legislation and HMRC rules. Tax rules can change in the future and there is no guarantee that current reliefs will remain available. Moreover, if the investment no longer qualifies for business relief, the IHT benefits may be reduced or lost.

Next steps

As IHT planning continues to evolve it is becoming increasingly important to review whether your existing arrangements remain appropriate for your circumstances and long-term objectives.

Business Relief can offer a valuable solution for individuals seeking to reduce a potential IHT liability whilst retaining access to their capital and maintaining control over their assets. However, as with any investment, it is important to ensure that the strategy is suitable for your personal circumstances, financial goals and attitude to risk.



If you would like to understand more about how Business Relief works, explore whether it could form part of your estate planning strategy or discuss the potential benefits and risks in greater detail, we encourage you to get in touch. To arrange a personalised consultation, please contact our team today to take the next step towards effective IHT planning.

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