

CASE STUDY



INHERITANCE TAX PLANNING – BUSINESS RELIEF INVESTMENTS

Mrs X had relocated to the area and had been made aware of a potential issue with passing on wealth to her beneficiaries. Following an initial discussion with an Albert Goodman adviser, it was determined that her objectives were as follows:

- Outline the potential inheritance tax liability that could be due on her death.
- Consider the potential options that would allow Mrs X to offset any inheritance tax liability payable.

Whilst the above were Mrs X main objectives, she also wanted to retain control of her funds during her lifetime and wanted to ensure that funds were flexible and accessible should she require access to the funds.

IHT Position – Pre-Recommendations

Following a review of her assets and available allowances, we were able to conclude that Mrs X had a potential Inheritance Tax Charge of £176,000 if she took no action. This is summarised in the table below and is based on the fact that Mrs X is single:

Estate Valuation Summary	
Savings & Investments	Estate Value
Savings & Investments	£490,015
Property	
Main Residence	£450,000
Total	£940,015
Gross Taxable Estate Value	£940,015
Less Residence Nil Rate Band	(£175,000)
Net Taxable Estate	£765,015
Less Nil Rate Band	(£325,000)
Taxable Estate	£440,015
Inheritance Tax at 40%	(£176,006)
Net Estate	£764,009

Based on Mrs X objectives, we identified that the one course of action could be to invest £400,000 from her savings and investments into Business Relief (BR) qualifying investments.

BR Investments

Business Relief (BR) is a tax relief provided by the UK Government as an incentive for investing in specific types of trading companies. It was introduced by the Government in the Inheritance Tax Act 1984, and has since been extended to include investments in certain types of unquoted companies (not listed on the main stock market) to encourage investment into this area.

BR was introduced as part of the 1976 Finance Act and was created to allow small businesses to be passed down through generations without incurring an IHT liability. However, over the years the scope of BR has been widened, making it an attractive option for individuals looking to invest in companies in order to remove a potential IHT burden.

Once assets qualifying for Business Relief are held for two years, they have the prospect of qualifying for 100% relief from IHT (providing they are still held at the time of death).

The main conditions for gaining BR relief are as follows:

- Smaller companies that are not listed on the main London Stock Exchange
- Some companies that are listed on the Alternative Investment Market (AIM) or Plus stock exchanges
- Businesses considered to be 'actively trading', and are therefore not just investment companies

Why BR investments?

Tax relief is given to qualifying individuals who subscribe for eligible shares in a qualifying company. Once assets qualifying for Business Relief are held for two years, they have the prospect of qualifying for 100% relief from IHT (providing they are still held at the time of death). Therefore, if Mrs x was to hold investment of this nature for longer than 2 years at her date of death, they would be exempt from any Inheritance tax.

In addition, BR investments would allow Mrs X to retain control of her capital for the duration of her lifetime. Mrs X could make withdrawals from the BR investment in the future; however, any capital withdrawals will no longer qualify for BR and therefore lose the qualification for 100% relief from IHT.

Risk Considerations

Whilst the tax reliefs offered by BR investments are very attractive, it is important that Mrs X understood the additional risks that came with this type of investment. These can be summarised below:

- Investments into BR investment companies are then invested into unquoted companies. These are deemed to be higher risk than companies listed on the London Stock Exchange Official List. As a result, there is the potential investors could lose some or all of the money if the investment falls in value or the company fails. Therefore, only investors with a high attitude to risk should consider investment into BR qualifying companies.
- Investments in shares in unquoted companies are not readily marketable and the timing of any realisation cannot be predicted.
- BR investments will not be exempt from IHT in the event of your death within the first two years.
- Rates of tax, tax benefits and allowances are based on current legislation and HM Revenue & Customs practice. These may change from time to time and are not guaranteed. In this case, the IHT relief available on this investment may be lost. Changes in law can have retrospective effect.

IHT Position – Post Recommendations

By following the recommendation to invest £400,000 into BR qualifying investments, we can conclude that Mrs X potential IHT liability would have reduced to £16,006, equating to a saving of £160,000. This is displayed in the table below:

Estate Valuation Summary

Savings & Investments	Estate Value
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BR Investments	£400,000
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Savings & Investments	£90,015
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Property

Main Residence	£450,000
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Total	£940,015
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Less IHT Exempt Assets**	(£400,000)
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Gross Taxable Estate Value	£540,015
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Less Residence Nil Rate Band	(£175,000)
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Net Taxable Estate	£365,015
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Less Nil Rate Band	(£325,000)
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Taxable Estate	£40,015
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Inheritance Tax at 40%	(£16,006)
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Net Estate	£924,009
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**Assuming she survives two years and the BR investments are held at the date of death.

Whilst the full potential IHT liability could be offset by investing further funds into BR investments, £90,000 of cash-based savings would be retained to cover her short-term requirements.

SUMMARY

BR is one of a range of potential options that can be utilised to help mitigate any inheritance tax that may be due on your estate. Therefore, it is important that your personal objectives are considered when looking into a final solution.

BR investments are high risk in nature and therefore it is important for potential investors to be aware that they could lose some or all of the money invested if the investment fails.

If you would like to discuss your own Inheritance Tax position, please get in touch and we will be happy to discuss this in more detail.



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