Using replacement property relief to reallocate AIM-listed shares into a portfolio of unlisted BR-qualifying shares to minimise an Inheritance Tax Liability.

Currently, AIM-listed and unquoted BR-qualifying shares both qualify for 100% BR with no cap on the amount invested. However, from 6 April 2026, unquoted shares will still qualify for 100% BR, but subject to a £1m cap per person, after which the rate of BR that can be claimed reduces to 50%. From the same date, AIM-listed shares become eligible for a flat 50% rate of BR irrespective of the amount held.

Understandably this has caused some investors to reconsider their portfolio allocations. Where estate planning is the primary objective, advisers may be required to provide guidance on how funds could be move between different types of investments in order to maximise the available reliefs.

In this scenario, we explore the role of Replacement Property Relief in helping investors reallocate their funds with minimal impact to their tax qualifying status.

Benefits of tax-efficient investments are subject to change and personal circumstances.

Don't invest unless you're prepared to lose all the money you invest. This is a high-risk investment and you are unlikely to be protected if something goes wrong.

Take 2 minutes to learn more on page 5

Meet Brandon

Brandon is an 85 yr old client with an extensive portfolio of shares that he has accumulated over his lifetime. He has heard about changes happening to BR and has reached out to his adviser to understand if he needs to make any changes ahead of the April 2026 deadline that was in the news. He has an extensive family and is keen to ensure that they benefit from his estate on his death.

The adviser meets with Brandon to reassess his portfolio of shares. They have discussed the cost of living, any care-giving services that Brandon may need in his later life, and Brandon's appetite for risk. The adviser has identified a portfolio of £500,000 AIM-listed shares which Brandon has held for several years, and as such have achieved their BR-qualifying status.

The adviser explains that from April 2026, the AIM-listed shares will benefit from 50% BR, meaning IHT will be payable at a rate of 20% on the entire £500,000. If Brandon would like the shares to be shielded from IHT, he would need to consider using replacement property relief to move the funds into an unlisted BR-qualifying portfolio which attracts up to 100% BR.

The adviser checks to see whether Brandon holds an Enterprise Investment Scheme (EIS) portfolio or other unlisted BR-qualifying shares. This is necessary to understand how close Brandon is to his £1m personal allowance. No other shares are identified.

The Replacement Property Provision allows Brandon to replace own Business Relief qualifying asset with another. In this instance, Brandon may wish to replace his AIM Shares with Unquoted Shares to benefit from lower volatility and higher tax relief. In order to qualify for the Replacement Property Provision, there must be a 'direct line' from the sale of one Business Relief qualifying asset to the purchase of another. The rules also require that the individual has held Business Relief qualifying assets for a cumulative period of two-years out of the last five-years and still held on the date of death.

From 6 April 2026, replaced qualifying AIM assets will only be eligible for the 50% rate of BR applied until the unquoted investment has served a full two-year period following its replacement. This is called 'the Ownership Condition'. Essentially, HMRC will look back through the replacement, and look at the rate of relief on the original asset, had the replacement not taken place. Therefore, the new shares will increase to 100% exemption once they have been owned for two-years and the need for the Replacement Property Provision is redundant.

Let's look at how Brandon's estate could change, using two different strategies:

Strategy One

£500,000
AIM investment remains in portfolio

If Brandon dies before 6th April 2026 the shares qualify for 100% BR.
£0 IHT liability

If Brandon dies after 6th April 2026, the shares qualify for 50% BR and IHT is due at 20% on whole investment.
£100,000 IHT liability

Strategy Two

£500,000
AIM investment moved into Blackfinch Adapt IHT Service on 6th April 2025

If Brandon dies before 6th April 2026 the shares qualify for 100% BR.
£0 IHT liability

If Brandon dies between 6th April 2026 and 6th April 2027, the shares will qualify for 50% BR and IHT is due at 20% on the whole investment.
£100,000 IHT liability

In April 2027, the new unquoted shares have reached their second anniversary and the requirement for Replacement Property Provision becomes redundant.

If Brandon dies after 6th April 2027 the shares will qualify for 100% BR and no IHT is due.
£0 IHT liability

Clients must be advised that this example is for illustrative purposes only and ignores fees, charges, returns and risks. Please refer to our product literature for further details

Here to help

For more help with tax-efficient strategies, please speak with your local Business Development Manager who will be happy to help.

Send us an enquiry →

Take a read of our Guide to BR →

Inheritance Tax

Everyone has an allowance of £325,000, known as the nil rate band, which they can leave to beneficiaries free of IHT. If the individual has an estate valued above this amount, it could be subject to IHT at a rate of up to 40%.

Residence Nil Rate Band

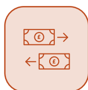
Introduced in 2017, the Residence Nil Rate Band (RNRB) is an additional IHT relief that can be claimed against the value of a main residence. The RNRB is currently £175,000. RNRB rates are frozen until 2030 and is only applicable to one home of which the deceased has lived and owned at some point, and is being passed on to direct descendants (e.g. children or grandchildren). RNRB starts to be reduced where the death estate exceeds a £2m taper threshold.

Supporting the UK Economy

Certain businesses qualify for Business Relief, including shares in many AIM-listed firms. Unlike traditional IHT solutions, which can invest globally, clients' money is invested in BR-qualifying firms, that are predominantly UK-based.

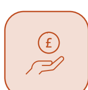
Advantages of BR

Can help preserve a family's wealth

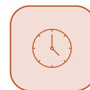


Transfer by way of gift:
If the individual (donor) holds BR-qualifying shares for 2 years before gifting, and the recipient of the gift still holds the shares at the time of the donor's death, the investment retains IHT Relief for the donor (reduce estate)

Transfer into Trust
If the shares were already held for two years before the transfer into trust, the potential lifetime charge to IHT is reduced from 20% to zero



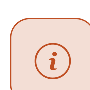
Only takes 2 years to qualify for BR
Shares must be held at the time of death



BR assets can replace each other

Upon death there are various options

- Shares can be encashed and distributed to beneficiaries
- Shares can be encashed, and proceeds paid to HMRC to pay any IHT bill due on the estate (Direct Payment Scheme)
- Shares can be passed down to beneficiaries who can then retain them. If the original owner had held the shares for over two years, the shares would be immediately BR qualifying in the beneficiaries estate



New Business Relief rates will apply from April 2026. Please refer to the Guide to Business Relief for further information.

Risks

Due to the potential for losses, the Financial Conduct Authority (FCA) considers this investment to be high risk.

What are the FCA key risks?

1 - You could lose all the money you invest
If the business you invest in fails, you are likely to lose 100% of the money you invested. Most start-up businesses fail.

2 - You are unlikely to be protected if something goes wrong
Protection from the Financial Services Compensation Scheme (FSCS), in relation to claims against failed regulated firms, does not cover poor investment performance. Try the FSCS investment protection checker. (https://www.fscs.org.uk/check/investment-protection-checker)

Protection from the Financial Ombudsman Service (FOS) does not cover poor investment performance. If you have a complaint against an FCA-regulated firm, FOS may be able to consider it. Learn more about FOS protection. (https://www.financial-ombudsman.org.uk/consumers)

3 - You won't get your money back quickly
Even if the business you invest in is successful, it may take several years to get your money back. You are unlikely to be able to sell your investment early.

The most likely way to get your money back is if the business is bought by another business or lists its shares on an exchange such as the London Stock Exchange. These events are not common.

If you are investing in a start-up business, you should not expect to get your money back through dividends. Start-up businesses rarely pay these. (https://www.financial-ombudsman.org.uk/consumers)

4 - Don't put all your eggs in one basket
Putting all your money into a single business or type of investment for example, is risky. Spreading your money across different investments makes you less dependent on any one to do well.

A good rule of thumb is not to invest more than 10% of your money in high-risk investments. (https://www.fca.org.uk/investsmart/5-questions-ask-you-invest)

5 - The value of your investment can be reduced
The percentage of the business that you own will decrease if the business issues more shares. This could mean that the value of your investment reduces, depending on how much the business grows. Most start-up businesses issue multiple rounds of shares.

These new shares could have additional rights that your shares don't have, such as the right to receive a fixed dividend, which could further reduce your chances of getting a return on your investment.

If you are interested in learning more about how to protect yourself, visit the FCA's website. (https://www.fca.org.uk/investsmart)

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