BLACKFINCH

Managing surplus cash in a business

Running a business comes with many challenges, and it's not unusual for the balance sheet to fluctuate. However, some change can lead to a high cash balance sitting in the business, such as assets being sold, gaining a large-scale profitable client, or having a long streak of growth from a new product launch.

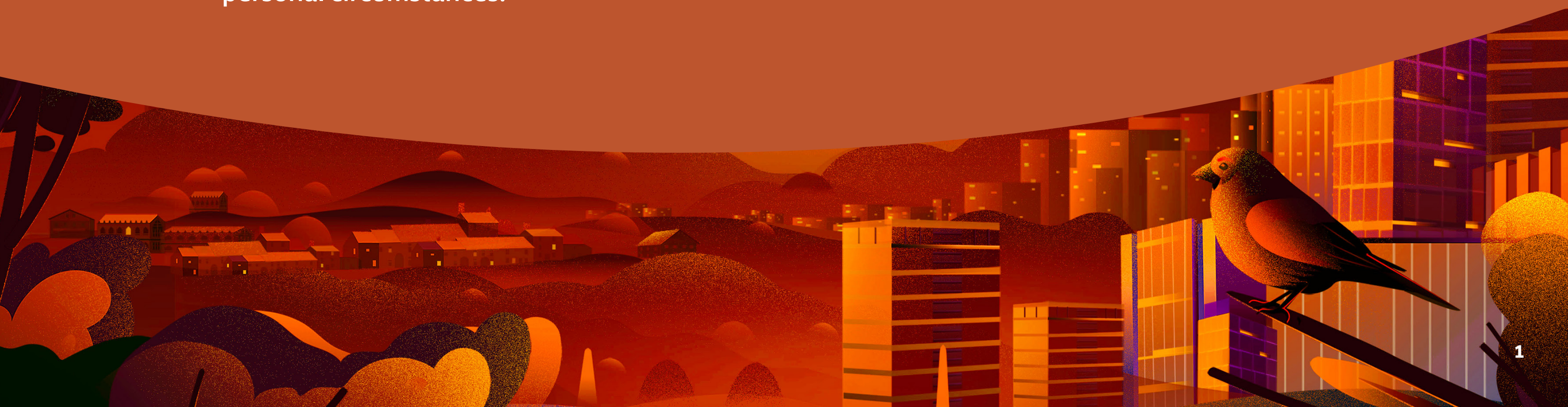
Whilst a certain amount of cash balance is helpful, acting as a buffer for any potential future challenges, a high cash balance isn't working hard for the business owners. If the excess cash is not being used for trading purposes, i.e. as working capital, and isn't earmarked for future business use, it could be classed as an "excepted asset" and wouldn't qualify for Business Relief (BR).

As a result, on the death of the business owner, the estate could face a significant Inheritance Tax (IHT) bill.

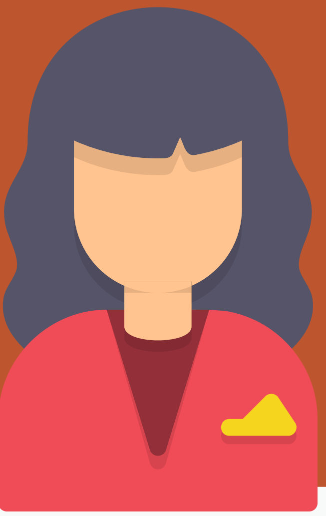
Business owners can use the Blackfinch Corporate Management Service (CMS) to maximise the earning potential of this excess cash, and access tax reliefs in the event of death.

Shares in BR-qualifying companies must be held for a minimum of two years and at the time of death to qualify.

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



Meet Rosie



Rosie, 64 and in good health, owns 100% of the shares (unquoted) of a successful grocery shop that has been in her family for generations. The balance sheet of the business is as follows:

Business Value including working capital: £2,350,000
Excess Cash: £650,000
Total Value: £3,000,000

The excess cash has been derived from the sale of commercial premises that the business no longer uses. This cash is not required for acquiring stock or to meet the running costs of the business and there are no plans to use it for any kind of future expansion or other business purpose.

Guidance given by the adviser:

The adviser completes a thorough review of the business finances and explains the risks associated with investing, including an assessment of their ability to absorb the impact of financial loss.

The adviser confirms with Rosie that the cash will not be needed for the daily running of the business, and that they have a suitable balance sheet to fall back on whilst these funds are invested. The investment objectives are outlined as maximising the earning potential of surplus business capital while also maintaining attractive tax reliefs for shareholders. The adviser has ruled out a corporate general investment account (GIA) and Investment Bond.

The adviser introduces Rosie to the Blackfinch CMS and explains that it carries out direct lending activity to other small and medium-sized UK companies. The focus is on asset-backed lending and property development lending. It targets a competitive return of 4%-6% per year (net of all fees) with no upper investment limit.

Since the original grocery business is BR qualifying, the new assets should immediately qualify for BR and her shares in the company qualify in full for BR.

Let's take a look at the two different approaches to handling the surplus cash balance:

Rosie **holds the cash** balance within the business	Rosie **invests the cash** balance in Blackfinch CMS
Rosie dies three years later	Rosie dies three years later
£260,000 Inheritance Tax liability on excess cash balance (40% x £650,000)	**£0** Inheritance Tax liability
£2,740,000 Value of the business at time of death	**£3,000,000** Value of the business at time of death *plus the potential for growth from her CMS investment*

Please note: Clients must be advised that this example is for illustrative purposes only and ignores initial and annual charges. Please refer to our product literature for further details.

As the surplus cash is now invested in a trading activity, the company should also potentially attract Business Asset Disposal Relief (BADR), formerly known as Entrepreneur's Relief, which means they would only have to pay the reduced level of Capital Gains Tax payable upon the sale of the business (subject to the £1m qualifying capital gains lifetime limit per individual).

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

BR assets can replace each other

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 its IHT relief for the donor whilst also reducing the value of the 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.

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.

IMPORTANT INFORMATION