 Take 2 minutes to learn more on page 3

CASE STUDY

BLACKFINCH
INVESTMENTS

# *Maintaining Inheritance Tax Relief When Selling a Business*

***Please note:***

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

*Business Relief rules are changing in April 2026. See the Guide to Business Relief for more information.*

**Scenario**

Many business owners may not realise that when the time comes to sell their business, the proceeds may become part of their estate for Inheritance Tax (IHT) purposes. This is the case for Richard, who sold his engineering business due to ill health. Richard's business was eligible for Business Relief (BR), which meant the shares were 100% IHT relievable. But now the business has been sold, he no longer benefits from the IHT relief.

When reviewing his estate planning strategy, Richard was made aware by his financial adviser that both the nil-rate band and residential nil-rate band are both taken up by the value of the family home. Richard has considered gifting or trust planning as part of his estate planning strategy, but he is not comfortable with losing control over the money, or having to wait a full seven years before it becomes completely IHT-exempt. For Richard and his wife, seven years feels like just too long to wait.

**Solution**

Richard's adviser tells him that as the business he sold was BR-qualifying, provided that he reinvests the sale proceeds (£1 million) within three years of the sale into another BR-qualifying asset, he will regain IHT relief on the value of the shares immediately.

Richard does not need to have held the new BR-qualifying asset for a further two years to achieve full IHT exemption. Replacement Property Relief states that a person can replace one BR-qualifying asset with another within three years, without re-setting the two-year clock.

As BR-qualification is attained on shares, for estate planning purposes Richard is not considered to have given any money away. He will always retain access and full control over his money so, should he ever need it, he can arrange a withdrawal of some or all of his investment, subject to liquidity. Whatever is left within the BR-qualifying asset when Richard dies is free of IHT for his beneficiaries.

**Steps**

Richard's adviser recommends investing an initial amount of £1 million into the Blackfinch Adapt IHT Service.

By investing the proceeds of the sale into another BR-qualifying investment, Richard's estate will not be liable for IHT on the sale proceeds, which would have been a bill of £400,000.

BR-qualifying investments are probably one of the most effective IHT planning tools available. In this case, in the event of the client's death, as soon as the following week after re-investment there would be no IHT payable.

Advisers should see all clients who are looking to sell their business and those who have sold their business in the past three years. Finally, it's worth remembering that the court case between Swain Mason and others v Mills & Reeve outlined the time-critical need for solicitors and accountants to refer clients in a similar situation to Richard for tax advice.



***IMPORTANT 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).