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Understanding how Inheritance Tax is proportionately shared across investments.

Written by
Anna Brooksbank
Senior BDM

Inheritance Tax (IHT) planning is a vital area for financial advisers and paraplanners, particularly when working with high-net-worth clients. Among the tools available, Business Relief (BR)-qualifying investments play a significant role in reducing a client's potential IHT liability. However, it is crucial to understand how IHT liabilities are proportionately shared across investments when HMRC assesses an estate.

This article explores how the rules will work after 6th April 2026 and uses a worked example to clarify the practical implications for client portfolios.

Business Relief and the Personal Allowance

Business Relief offers up to 100% IHT relief on the value of certain qualifying business assets, including investments in qualifying Alternative Investment Market (AIM) shares and unlisted trading companies. To qualify for BR, investments must typically be held for a minimum of two years and at the time of death.

From April 2026, AIM shares qualify for 50% BR irrespective of the amount held, whilst unlisted trading company shares qualify for up to 100% BR.

Individuals have a personal BR allowance within their estate of up to £1,000,000 for investments to be 100% free from IHT. Investments in unlisted companies, Enterprise Investment Scheme (EIS) Portfolios and BR-qualifying company assets (such as agricultural/farms) contribute to an individual's personal allowance. AIM listed shares are not included when assessing an individual's IHT personal allowance.

Nil Rate Bands still apply

A Tax-Free Allowance of up to £1,000,000

Composed of:

- £325,000 Nil-Rate Band (NRB)
- £175,000 Residence Nil-Rate Band (RNRB)
- Both allowances transferable between spouses/ civil partners (if unused on first death)

Total for a couple: **£1,000,000**

What Counts Towards the £1,000,000 Personal BR Allowance?

The following investments are included when checking if the £1,000,000 personal BR allowance has been exceeded:

- Business Relief qualifying assets such as unlisted company shares
- Agricultural Relief qualifying assets such as farms, that qualify for 100% exemption
- Any BR and AR qualifying assets gifted to beneficiaries or settled into Trust in the seven-years preceding death of the settlor
- Enterprise Investment Scheme (EIS) portfolios

The £1,000,000 BR allowance is non-transferable and can only be used on the death of the individual holding the BR-Qualifying assets.

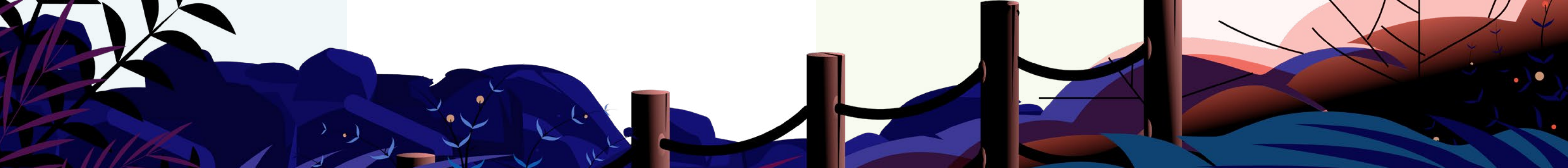
The £1m personal BR allowance resets after seven-years for any gifts of BR during the client's lifetime.

What Does **NOT** Count Towards the £1,000,000 Personal BR Allowance?

The following are excluded when checking your IHT allowance:

- AIM-listed shares (that qualify for BR)
- AR qualifying assets that only qualify for 50% exemption
- Land, buildings, machinery or plant used wholly or mainly for the purposes of the business carried on by a company or partnership
- Listed shares where 50% voting rights are held

Although they receive 50% Business Relief (from April 2026), AIM shares are not counted when assessing whether you've exceeded your personal BR allowance.



Investments Above the Personal BR Allowance

BR-qualifying investments (non-AIM) below the personal BR allowance receive 100% BR and will not pay any IHT. Above the personal BR allowance, the BR rate then reduces to 50% meaning IHT is paid at a rate of 20%. The £1m allowance relates to the total value of qualifying investments held, irrespective of provider.

Proportionate Inheritance Tax Liabilities

When an IHT liability falls due and the client holds multiple investments, the liability is shared proportionately across each investment. Below we explore what this means using a practical worked example:

Two years ago, Robin invested £1.2m into two unquoted BR-qualifying investments in amounts of £800,000 with provider A and £400,000 with provider B, respectively. His other assets are covered by RNRB allowances.

Under the new rules, IHT falls due on the amount above £1m personal BR allowance (i.e., £200,000) at the new **20% rate**. The IHT liability is proportionally spread across both BR-qualifying investments.

20% IHT on the £200,000 = a £40,000 IHT liability

(£800/000/£1,200,000) = 66%. This means two thirds of the liability is owed from the £800,000 investment with provider A = approx. **£26,666**

(£400,000/£1,200,000) = 33%. This means one third of the liability is owed from the £400,000 investment with provider B = approx. **£13,333**

Without BR-qualifying investments as part of his estate planning, Robin's estate would have been liable for an IHT bill of **£480,000** (40% of the full £1.2m).

Where do IHT liabilities on AIM listed investments feature?

From April 2026, AIM shares will incur 20% IHT irrespective of the amount held and they do not count towards the £1,000,000 personal BR allowance. This means that if Robin's estate included a £500,000 AIM investment, there would be an additional £100,000 IHT owed on top of the amount outlined above.

Combining AIM listed investments and unquoted business company shares

It's important to put the client investment objectives at the heart of estate planning, in order to ensure that the best outcomes are achieved. Whilst AIM listed investments may incur more IHT than unquoted shares it doesn't mean they should be immediately discounted. AIM listed shares continue to provide a valuable source of diversification for clients in their wider portfolio holdings.

For clients who are prioritising diversification alongside BR-qualifying status, a combination of AIM-listed shares and unquoted shares could prove to be a valuable combination. As the client approaches later life, the estate planning can be revised if the objective moves more towards achieving 100% BR in readiness for passing on as much wealth as possible to future generations.

Replacement Property Relief can be used when moving between investments that both qualify for BR. Our nationwide team of Business Development Managers are on hand to deliver adviser and paraplanner training on how the new rules will impact replacements made before or after the April 2026 date. Please speak to one of our team to ensure you have all the information you need to provide an exceptional experience for your clients.

strategicteam@blackfinch.com

blackfinch.investments/iht

To explore Business Relief in greater detail and understand the implications of the latest legislative changes, we invite you to download and share our comprehensive Guide to Business Relief.

Estimated reading time: 2 mins

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).