CASE STUDY

BR with a Business Sale

Where a business sale removes Business Relief, reinvestment into qualifying assets may help restore Inheritance Tax efficiency.

THE PLANNING CHALLENGE

Building a family business often takes decades of work and risk. One comfort many owners have is knowing that, if the business is passed to the next generation, it may qualify for Business Relief (BR) and avoid being broken up to pay a future Inheritance Tax (IHT) bill.

However, when a BR-qualifying business is sold, the position changes. Shares that previously qualified for Business Relief are converted into cash or investments, and its protection from IHT can disappear.

As a result, **the proceeds of a business sale may become fully exposed to Inheritance Tax unless further planning is undertaken.**

CLIENT PROFILE

Susan built her PR and marketing business from scratch, developing a successful firm with a strong client base.

Susan takes comfort in knowing that the shares in her company could potentially pass to her children free from IHT through Business Relief.

However, as she approaches 65, Susan begins to consider retiring and enjoying the rewards of everything she has built.

A rival firm approaches her with an offer of £5 million to acquire the business. While an attractive offer, Susan worries that selling the company would convert a BR-qualifying asset into cash, potentially exposing much of her estate to IHT after settling any capital gains tax that would become due following the sale.

She, therefore, asks her adviser to explore whether she can sell the business while preserving some of the tax efficiency currently available.

CURRENT IHT EXPOSURE

If Susan retains ownership of the company and passes it to her children on death, the shares would be expected to qualify for Business Relief.

From 6 April 2026 the first £2.5 million of Business Relief qualifying assets and Agricultural Property Relief qualifying assets per individual, that are held for at least two years (and at the point of death), will continue to attract full IHT relief. The excess over £2.5 million will attract a reduced rate of relief of 50% (ie, an effective IHT rate of 20%).

However, if Susan accepts the £5 million offer, the business shares would be converted into cash or investments that normally form part of her taxable estate.

Her adviser therefore considers the potential Inheritance Tax exposure if the proceeds remain within her estate, treated, here, in isolation:

Note: This example is for illustrative purposes only and should not be read as advice. Any decision in respect of suitability should be based on a holistic review of client objectives, needs and risk profile. No investment growth or losses have been assumed.

Illustrative Position Following Sale

- **Sale proceeds from business (assuming no CGT is payable):** £5,000,000
- **Less Nil-Rate Band:** £325,000
- **Taxable estate:** £4,675,000
- **Potential IHT at 40%:** £1,870,000

Without further planning, Susan's children could face an Inheritance Tax liability of approximately £1.87 million.

Please note we are not considering Susan's other assets in this planning scenario.

SOLUTION USING BR

Susan's adviser explains that it may be possible to preserve some of the IHT efficiency previously provided by Business Relief.

Under the replacement property rules, where a qualifying business is sold it is possible to reinvest the proceeds into other BR-qualifying assets while preserving the original ownership history.

If the replacement investment occurs within three years of the sale, the original ownership period may carry across. This means the new investment may qualify for Business Relief immediately, rather than being held for the obligatory, two-year holding period.

Susan considers allocating £1 million of the sale proceeds into a BR-qualifying service investing in trading companies expected to qualify for Business Relief and retain the balance of her proceeds reflecting her desire for liquidity in retirement. As long as it remains Business Relief qualifying when she dies, 100% of the investment may be exempt from Inheritance Tax. The capital also remains accessible to her during Susan's lifetime.

OUTCOME COMPARISON

Susan's adviser illustrates how reinvesting part of the proceeds into Business Relief—qualifying assets could affect the eventual IHT position of her estate.

SCENARIO	TAXABLE ESTATE	POTENTIAL IHT (40%)
1. Susan sells her business and takes no action	£4,675,000	£1,870,000
2. Business is sold and Susan invests £1 million of the proceeds BR-qualifying assets	£3,675,000	£1,470,000

Reinvesting £1 million into BR-qualifying assets could therefore reduce the potential IHT liability by approximately £400,000.

CONSIDERATIONS AND RISKS

Susan's adviser makes her aware of the considerations. Business Relief is only confirmed by HMRC when a person dies, so the investment needs to qualify for the relief at that point for the tax benefit to apply.

There is investment risk to consider, as BR services tend to invest in smaller, unquoted, or AIM quoted companies whose values may be more than volatile than large companies listed on the main exchanges. Susan must be comfortable with this potential volatility.

Liquidity can sometimes be lower too, which means Susan may struggle to sell her shares in a timely manner. Tax rules can change over time, so the availability or treatment of Business Relief in the future cannot be guaranteed.

With any planning strategy, it needs to be suitable, meaning it should fit with Susan's wider financial situation, objectives and comfort with investment risk.

CONCLUSION

Selling a business allows an owner to realise the value of decades of work, but it can also transform a tax-efficient asset into one fully exposed to Inheritance Tax.

By reinvesting part of the proceeds into Business Relief-qualifying assets, it may be possible to preserve some of the IHT efficiency that her previous business enjoyed.

This approach can allow clients like Susan to enjoy the rewards of selling their company while protecting part of their estate for the next generation.

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FIND OUT MORE

For further information on how ZEPS can be used for estate planning, please email:

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