ZENZIC CAPITAL

CASE STUDY

BR Without Direct Decendants: Trading a Small Tax Now for a Larger Saving Later

Where assets carry latent gains, single individuals with lower reliefs may need to accept a Capital Gains Tax charge to achieve a better Inheritance Tax outcome.

THE PLANNING CHALLENGE

As asset values have risen and allowances remained fixed, **Inheritance Tax now affects estates built from relatively modest means, with single individuals often more exposed due to limited available reliefs.**

Without these valuable reliefs, effective planning may require weighing a known, immediate Capital Gains Tax charge against a potentially much larger Inheritance Tax liability in the future.

CLIENT PROFILE

Harry, 82, has lived in Woolwich all his life, working as a factory machine operator until retirement. He never married and has no children.

He lives comfortably on his pension. Ten years ago, he inherited his parents' home, bought for a modest sum decades ago, now drawn into the Inheritance Tax net and generating rental income he does not need.

Harry intends to leave his estate to his godson and wishes to minimise the inheritance tax payable on his death.

THE PROBLEM: UNAVAILABILITY OF ALLOWANCES

Harry's estate is largely comprised of residential property and a modest amount of cash, both potentially exposed to Inheritance Tax.

As he is unmarried and has no direct descendants, some key allowances are unavailable to him. He cannot benefit from a spouse's nil-rate band, nor does he qualify for the Residence Nil-Rate Band, which is restricted to assets passing to direct descendants.

Harry is aware that gifting his second property would potentially remove it from his estate. However, at 82, even in good health, the seven-year requirement for gifts to fall outside of an estate introduces uncertainty. More importantly, gifting would mean relinquishing control, something he is not prepared to do.

CURRENT IHT EXPOSURE (ILLUSTRATIVE)

Estate Value

- **Primary residence (purchased 1970):** £600,000
- **Inherited property (current value):** £550,000
- **Cash savings:** £35,000
- **Total estate:** £1,185,000

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.

Allowances

- **Nil-Rate Band:** £325,000
- **Spouse Nil-Rate Band:** £0
- **Residence Nil-Rate Band:** £0

Tax Position

- **Taxable estate:** £860,000
- **Inheritance Tax at 40%:** £344,000

A substantial portion of Harry's estate, built over a lifetime of modest means, is therefore exposed to tax, with limited scope to reduce the liability using conventional allowances.

PLANNING CONSIDERATION: USING CGT TO UNLOCK PLANNING

Harry considers whether to retain the inherited rental property or sell and re-invest the proceeds in a more tax-efficient structure.

A sale would trigger Capital Gains Tax, calculated on the increase in value since he inherited the property, the difference between the current market value and the probate value at the date of inheritance.

He must weigh a known, limited tax charge today against a larger, future exposure. If retained, the property's full market value would fall into his estate on death and be subject to Inheritance Tax at 40%.

ILLUSTRATIVE TAX COMPARISON

Assumptions

- **Probate value:** £500,000
- **Current value:** £550,000
- **Gain:** £50,000
- **CGT allowance:** £3,000
- **CGT rate:** 24% (Harry pays CGT at the higher rate)

Comparison

SCENARIO	TAX TYPE	TAX BASIS	APPROX. TAX
1. Sell now	CGT	Gain: £50,000 (less the CGT allowance £3,000)	£11,280
2. Retain until death	IHT	Full value: £550,000	£220,000

Capital Gains Tax applies only to the growth since inheritance. Inheritance Tax applies to the full value.

Harry must decide between a trade-off:

1. Accept a relatively small, known tax charge today, in exchange for the ability to reposition the asset
2. Retain it and expose its full value to IHT at 40% on death.

SOLUTION USING BUSINESS RELIEF

Following a sale of the rental property, Harry's adviser suggests allocating the majority of the proceeds equivalent to **£500,000** into a portfolio of Business Relief–qualifying trading companies via the Zenzic Estate Planning Service (ZEPS). Harry selects the 'Income' option in ZEPS, so that the investment pays a regular income instead of rolling up the growth. Income is important to Harry given he will lose the income that he used to receive from his rental property. Subject to ongoing eligibility, **these investments should qualify for 100% Business Relief once held for two years.**

This approach:

- ✓ **Converts part of the estate** into assets that may qualify for **100% Business Relief**
- ✓ **Avoids** reliance on **long-term gifting**
- ✓ Allows Harry to **retain access to capital**, subject to liquidity.

Outcome (Illustrative – including CGT impact)

SCENARIO	CGT	TAXABLE ESTATE	IHT (40%)	TOTAL TAX
1. No action (retain property)	£0	£860,000	£344,000	£344,000
2. Sell + invest £500k into BR	£11,280	£360,000	£144,000	£155,280

A relatively small CGT charge enables a materially lower overall tax outcome.

Despite triggering a Capital Gains Tax charge on sale, the overall tax position improves materially.

By reshaping part of the estate into Business Relief–qualifying assets, Harry potentially reduces his total tax exposure by approximately £189,000, without relinquishing control of his capital.

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CONSIDERATIONS AND RISKS

- Business Relief is not guaranteed and depends on qualifying status at the time of death
- Capital is at risk and the value of investments may fall
- Investments may be less liquid than mainstream assets
- Capital Gains Tax may arise on asset disposals used to fund planning
- Tax rules and reliefs may change over time
- Suitability depends on individual circumstances, objectives, and attitude to risk.

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%).

CONCLUSION

For individuals like Harry, a lifetime of modest earnings can still lead to a meaningful Inheritance Tax liability, often driven by long-term property ownership rather than deliberate wealth accumulation.

Where planning begins later in life, traditional strategies such as gifting may no longer be practical. In these circumstances, accepting a relatively modest Capital Gains Tax charge can unlock more effective planning options.

Business Relief, accessed via ZEPS, offers a potential route to reshaping the estate and reducing overall tax exposure within a shorter and more certain timeframe.

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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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