INHERITANCE PLANNING COMPANY

How to Use Business Relief to Protect Your Business from Inheritance Tax

Business owners face a unique challenge when it comes to inheritance tax (IHT). Without proper planning, the value of your business could be significantly reduced by a 40% tax when passed to the next generation. Fortunately, **Business Relief (BR)** offers substantial tax exemptions, helping you preserve your hard-earned business assets for your family and heirs.

What is Business Relief?

Business Relief is an inheritance tax exemption designed to reduce or eliminate the IHT liability on certain business assets. Eligible assets may qualify for up to 100% relief, ensuring they pass to your beneficiaries without being taxed.

Types of Business Relief

1. 100% Relief:
- o Applies to most trading businesses, including shares in unlisted companies, sole proprietorships, and partnerships.

2. 50% Relief:
- o Applies to certain assets used in the business but owned separately, such as buildings or land rented to the business.

3. Non-Qualifying Businesses:
- o Businesses focused primarily on investments, such as buy-to-let portfolios or share portfolios, do not qualify for Business Relief.

Key Eligibility Criteria

To qualify for Business Relief:

- The business must have been actively trading for at least **two years**.
- The assets must still be used for business purposes at the time of transfer.
- The business must not primarily deal with investments or property letting.

Risks Without Business Relief

1. **Significant Tax Liabilities:**
   - Without Business Relief, your beneficiaries could face a 40% IHT bill on the value of the business.
2. **Loss of Business Continuity:**
   - High tax bills can force beneficiaries to sell or liquidate the business to cover IHT costs.
3. **Reduced Wealth for Heirs:**
   - The loss of value in the business can affect generational wealth and family security.

A Case Study: Protecting Business Assets

Emma's Engineering Firm:

Emma owned a thriving engineering business valued at £2 million. By ensuring the business qualified for Business Relief, Emma's heirs avoided a potential £800,000 IHT bill. Her family was able to retain ownership and continue operating the company, preserving her legacy.

How to Maximise Business Relief

1. **Review Business Structure:**
   - Ensure your business qualifies as a trading company under HMRC rules.
2. **Use a Business Trust:**
   - Place shares or assets in a Business Relief Trust to safeguard them from IHT and ensure they pass smoothly to beneficiaries.
3. **Draft a Business Will:**
   - Specify how your business should be managed or transferred, ensuring it qualifies for relief.
4. **Avoid Converting Shares to Cash:**
   - Cash from the sale of a business is subject to IHT. Keeping assets as shares ensures they qualify for relief.

How We Can Help

At the Inheritance Planning Company, we specialise in helping business owners:

- Structure their business to maximise eligibility for Business Relief.
- Draft Business Wills and create trusts to protect business assets.
- Develop succession plans to ensure a smooth transfer of ownership.

Protect Your Business Today

Contact us now to learn how Business Relief can safeguard your company and preserve your legacy for future generations.

Disclaimer:

This information is correct as of September 2024. Legal updates or changes may have occurred since then. For the most current advice, please contact **Inheritance Planning Company Ltd** at:

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