

YOU AND YOUR FAMILY

# Inheritance Tax and Your Business

How inheritance tax applies to a family business, what reliefs may protect it, and the planning that is worth doing while you can.

FOR: OWNERS OF FAMILY AND LONG-ESTABLISHED BUSINESSES • SOME TO EXPERIENCED

## Why it matters to business owners

Inheritance tax is charged on the value of your estate when you die, and on some gifts made in the years before. The business may be the most valuable thing you own, but not the most liquid. If a large tax bill falls due and the money is tied up in shares or premises, the family may have to sell part or all of the business to pay it. That is the main reason to plan.

## The basics

- **Each person has a tax-free band**, and in some cases an extra allowance for a home passed to direct descendants. Unused amounts can sometimes pass to a surviving spouse or civil partner.
- **Gifts to a spouse or civil partner** are generally free of inheritance tax, as are gifts to charity.
- **Other gifts** may be free of tax if you survive them by seven years, and may be taxed if you do not, on a sliding scale.
- **Rates** apply above the tax-free amounts, and the rate is reduced if enough is left to charity.

## Business relief

The most important protection for business owners is business property relief, which can reduce the taxable value of qualifying business interests, including shares in an unquoted trading company and an interest in a trading business, by a percentage, sometimes up to 100%. To qualify:

- The business must be mainly trading, not mainly investment (for example, letting property).
- You must have owned it for the minimum period before death or the gift.
- Other conditions apply to the type of asset.

The scope and limit of the relief have changed recently and are under review, with restrictions affecting larger estates, so check the current rules, and do not assume your business will be fully protected.

## Who this is for

- Owners with family involved in the business
- Anyone whose business is their main asset
- Parents planning to pass on shares

## Key points

- Inheritance tax can force the sale of a business.
- Business relief may protect a trading company, with conditions.
- The relief has been restricted for larger estates.
- Wills and gifts need planning, and updating.
- Take advice early. Planning takes years.

## Steps worth considering

- **Make and update a will.** Without one, the law decides who gets your shares, which may not be what you want. Include the business in the plan.
- **Review the structure.** If the business holds investments or property alongside trading, the relief may be reduced. Sometimes a restructure helps.
- **Consider lifetime gifts of shares.** Gifts may reduce future tax if you survive, but they can trigger capital gains tax and affect control. Use a proper plan.
- **Use trusts,** where appropriate, to pass control and value to the next generation in a controlled way.
- **Protect against a bill:** life insurance written in trust can provide cash to pay the tax without selling the business.
- **Sort out the shareholder arrangements.** Shareholders' agreements and articles can set out what happens on death, and cross-option arrangements with insurance can allow co-owners to buy shares from the estate.
- **Powers of attorney,** so someone can run your affairs if you lose capacity.

## Questions to ask

- What is my estate worth?
- Does the business qualify for relief?
- How would the family pay a bill?
- Is there a will, and is it current?
- Are shareholder agreements in place?
- Have we looked at insurance?

## Capital gains tax and inheritance tax together

Gifts and transfers can bring capital gains tax as well as inheritance tax, and the reliefs for each work differently. A good plan looks at both, and at income tax, before recommending a step. On death, assets are generally revalued for capital gains tax purposes, which can mean a gain is wiped out, so lifetime gifts are not always the answer.

## Review regularly

Rules, valuations and family circumstances change. Review your position every few years, and whenever there is a major event such as a marriage, a death, a sale or a change in the business.

## Related guides

If this is useful, you may also want:

- Capital gains tax
- Succession planning
- Group structures

### How King Street can help

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We estimate the inheritance tax exposure on your business and wider estate, test whether relief is available, and work with your solicitor and financial adviser on wills, trusts, gifts and insurance. We keep the plan under review as the rules and your business change.

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