A BLACKFINCH GUIDE TO

Business Relief

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Welcome to the Adviser's Guide to Business Relief. As a financial adviser, you'll already be well aware that Inheritance Tax (IHT) poses a significant problem for a large portion of your clients. According to HM Revenue & Customs, IHT receipts amounted to approximately £7.5bn in 2023/2024, compared to £7.1bn taken in the previous tax year.*

This rise has been attributed to the continued rise in asset values, particularly property, an increased number of wealth transfers following the COVID-19 pandemic, and the government's decision to freeze tax thresholds until 2028. This means that more people are leaving behind a significant IHT bill for their loved ones to deal with.

At Blackfinch, we are passionate advocates of intergenerational wealth planning, and committed to helping ensure people can pass on more of their wealth. Business Relief (BR) has always been a central component of our investment management ethos. For example, through our Adapt IHT Service, clients can plan for IHT while investing in firms operating across renewable energy generation and energy infrastructure assets, property development finance and asset-backed lending. Alternatively, our Adapt AIM Portfolios invest in fast-growing firms listed on the Alternative Investment Market (AIM), and different income and growth portfolios offer clients genuine growth potential as well as to providing them with the option of an Individual Savings Account tax wrapper.

*Source HMRC tax receipts and National Insurance contributions for the UK

Here at Blackfinch, we believe BR has an important role to play in helping more families to successfully transfer their wealth between generations. We also believe that companies that qualify for BR have a significant role to play in the growth of the UK economy, and we're proud of the work we do to give these companies the investment they need to be successful.

In this guide

The History of Business Relief

Business Relief has been an established part of Inheritance Tax (IHT) legislation since 1976. Originally known as Business Property Relief, it effectively reduces the value of a business (or its assets) when HMRC calculates how much IHT has to be paid.

It was first introduced by the government to help ensure that when the owner of a family business passed away, the family would not be forced to sell the business – or any property owned by the business – to pay any IHT due. Down the years, the rules relating to Business Property Relief expanded so it was no longer applicable just to family-owned businesses – and the relief become more widely known as Business Relief.

Business Relief is a valuable IHT exemption because if an individual holds shares in a company that qualifies for Business Relief, those shares become 100% IHT relievable after a holding period of just two years, provided the shares are still held at the time of death. That's a much shorter timeframe than other IHT planning tools, such as trusts or gifting large sums, which take seven years before benefiting from full IHT relief.

In 1995, recognising the economic advantages of encouraging more investment into UK companies from retail investors, the government extended Business Relief rules to include ownership of some shares listed on the Alternative Investment Market (AIM).

Business Relief can be applied for by the executor of the will or administrator of the deceased's estate and can also be transferred during a persons lifetime.

Which Companies Qualify for Business Relief?

Not all businesses qualify for Business Relief. It only applies to:

- **Shares in an unquoted qualifying company**
- **Shares in a qualifying company quoted on AIM**
- **An unincorporated qualifying trading business, or an interest in one**

The shares must be held for a minimum of two years, and at time of death, to qualify

Companies that do not qualify for Business Relief include:

- **Most companies listed on the London Stock Exchange**
- **Companies that deal with securities, stocks or shares, land or buildings, or in making or holding investments**
- **Not-for-profit organisations**

How a BR-Qualifying Investment Can be Passed to Beneficiaries with 100% IHT Relief

IHT used to be considered a tax paid by only the very wealthy. But after decades of house price increases, it's increasingly common for people to have accumulated an estate with an IHT liability. This is even after an increase to £175,000 in the main residence nil-rate band, alongside the £325,000 IHT nil-rate band available for individuals, currently fixed until 2027/28. Of course, any IHT bill must be paid by the deceased's beneficiaries.

£875k

Robin has a total estate valued at £875,000

The value of the estate above the nil-rate band **(£325,000)** and residential nil rate band **(£175,000)** = **£375,000**

£150k

The IHT bill of 40% against this value is £150,000

£375k

However, if Robin invests this money into a BR-qualifying portfolio there will be no Inheritance Tax to pay at the time of death (as long as he has held the shares for 2 years and at the time of death)

£725k

The value of Robin's estate after IHT

£875k

The value of Robin's estate after IHT with an investment into a BR-qualifying portfolio

Accessing BR-Qualifying Shares Through Investments

Investors with an estate large enough to trigger an IHT bill can invest in the shares of companies that by their trading activities, are considered eligible for Business Relief – or are in other words BR-qualifying. Investing in a diverse portfolio of different BR-qualifying companies also gives the investor the potential for sustainable investment returns, and spreads the investment risk.

At Blackfinch, we offer a range of BR-qualifying portfolios carefully constructed to meet this need. These include:

Product	Investment sectors and industries	Is your money invested in the UK or globally?	Client investment objective	Typical Client Scenario
Adapt IHT Service***	Property development, Asset backed lending Renewable energy	UK	IHT Relief	Capital preservation and growth
Adapt AIM Portfolios	Growing business listed on AIM	UK	IHT Relief Tax free returns* Capital Gains Tax Relief*	Income and growth
Ventures EIS Portfolios***	Early-stage, unlisted technology led businesses	UK	IHT Relief Income Tax Relief Capital Gains Deferral Tax Free Growth ***Conditions apply*	Growth

** Assets must be held within an ISA to qualify for returns free of Income Tax and Capital Gains Tax. For any assets held outside ISAs, tax may be payable on income and capital gains.*
***Growth free of CGT (if Income Tax relief has been claimed)*
For investments to qualify for income tax relief and tax-free growth, investors must hold them for a minimum of three years.

*****Don't invest unless you're prepared to lose all your money invested. This is a high risk investment. You could lose all the money you invest and are unlikely to be protected if something goes wrong.** Take 2 minutes to learn more on pages 9 & 10 →

Benefits

Why Recommend BR-Qualifying Investments to Clients?

Choice

Clients now have a broad range of different BR-qualifying investment options to choose from, making it easier to find a product that closely matches their overall investment objectives and risk profile. The variety of solutions also makes for a good fit alongside other estate planning options, such as trusts.

Speed

Unlike trusts and gifts, which can take seven years to be 100% IHT relievable, BR-qualifying shares are exempt when held for at least two years and at time of death.

Flexibility

If an asset which qualifies for business relief is sold, the relief can be maintained if the asset is replaced by the purchase of a new BR-qualifying asset or investment within three years. In other words, the two-year ownership period is not reset if the sale proceeds are used to replace one BR-qualifying asset with another.

Additionally, where a client acquires BR-qualifying shares on the death of their spouse or civil partner, the previous period of ownership will count towards the client's ownership period.

Risks

What are the risks associated with BR-qualifying shares?

Capital is at risk. The value of an investment may go up as well as down.

Legislation

Legislation for tax rules and reliefs could change in the future. This may impact shares held in companies that are later deemed as no longer BR-qualifying. To date, Blackfinch has achieved 100% success rate on creating BR-qualifying investments.

BR Qualification

Business Relief is assessed by HMRC on a case-by-case basis at the time of death of the investor, as part of the probate process. Therefore, the relief cannot be guaranteed. The two-year timeframe begins when HMRC deems the investment to have become BR-qualifying. This may be later than the investment date.

Liquidity

Liquidity varies by product and should be considered when understanding which product may be a suitable fit for an investor.

Suitability

The products detailed in this document may not be suitable for all investors and we would recommend that prospective investors seek independent advice before making an investment decision.

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).

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Prospective investors should not treat the contents of this guide as advice relating to legal, taxation or other matters. If they are in any doubt about the proposal discussed in this guide, its suitability, or what action should be taken, they should consult their own professional advisers.

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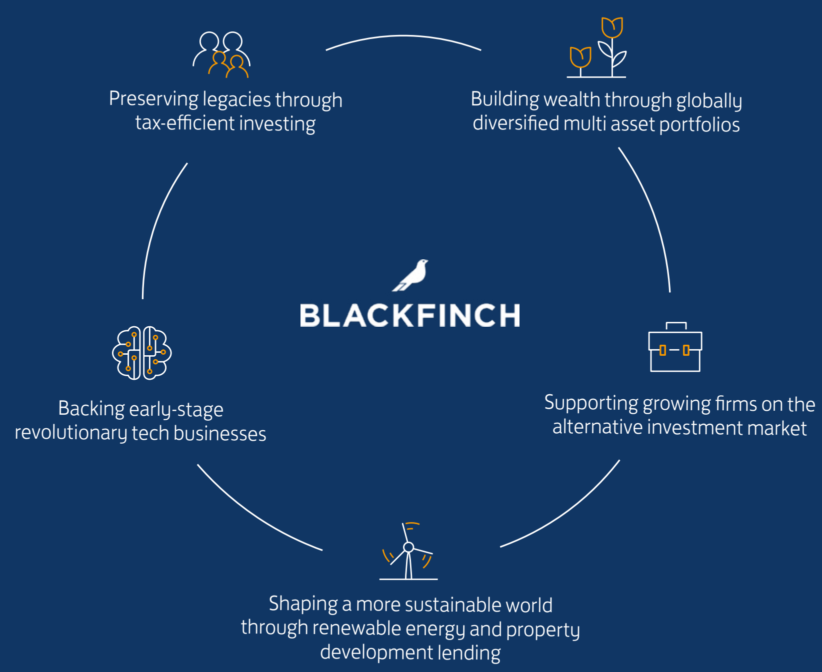
The products detailed in this document may not be suitable for all investors and we would recommend that prospective investors seek independent advice before making an investment decision.

For more guides, case studies and resources please feel free to contact your local Business Development Manager.

A **lifetime** investment partner

Blackfinch offers a number of investment solutions, to address a range of client objectives.

No matter where they are in their investment journey, from starting out in building their wealth, through to managing their estate to ensure they pass on as much as possible to the next generation, we are here to help you achieve their goals



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