

Tax Planning Post-Sale of a Company

How Selling a Business can Create an Inheritance Tax Problem

When it comes to selling a business, an important factor to consider is what happens to the post-sale proceeds.

If it's a trading business that's being sold, the value of shares (pre-sale) would have been entitled to Business Relief (BR) i.e. exemption from inheritance tax. However, once the sale has gone through and the former business owner no longer holds BR-qualifying assets, the proceeds will likely become subject to Inheritance Tax.

This may be a concern, particularly for those sellers who are approaching retirement age. It can be disappointing to hear that their hard-earned proceeds will become part of their estate for Inheritance Tax (IHT) purposes. Faced with the potential of losing 40% to tax, they may be keen to know what their options are to protect the value they've built up.

Potential Solution

Under BR Replacement Property Rules, those who have sold a business are granted a 3-year period in which they can deploy some, or all, of their sales proceeds into other BR-qualifying shares. Doing so can provide them with immediate inheritance tax relief on that money.

There are a number of providers in the marketplace that offer such solutions, in the form of capital preservation style investments, with steady predictable investment returns. Importantly, investors can retain access and control of their money should they need it.

The Tax Implications

The table below shows how an estate can change based on two different strategies (assuming all allowances have already been used up by other assets):

Former B.O. sells the business and retains £1m in cash	Former B.O. deploys £1m into BR-qualifying investment
40% IHT due against the full amount £400,000	IHT due £0
Amount available to pass on: £600,000	Amount available to pass on: £1m

Further Information & Support

If you have any questions or would like further information, please contact John Castle of Tax Planning Solutions:

01245 526 328
john@taxplanningsolutions.co.uk
www.taxplanningsolutions.co.uk

