Estate Planning

Two-year qualifying period

Business Relief allows clients to invest in qualifying trading businesses and obtain inheritance tax relief after just two years, while retaining ownership and access throughout.

Business Relief as a form of Inheritance Tax Planning

An introduction to BR wrapper mechanics

What is Business Relief?

Business Relief (formerly Business Property Relief) reduces the value of qualifying business property for inheritance tax purposes. It is available on lifetime transfers and on death, provided the qualifying asset has typically been owned for at least two years.

1 Origin

BR was introduced to ensure that family-owned trading businesses can survive after the death of an owner, without having to be sold or broken up to settle an inheritance tax liability.

2 Purpose

Relief is available to private investors who put capital into qualifying unlisted trading businesses, supporting the wider UK economy whilst providing estate planning benefits.

3 Investor application

Investing in shares which qualify for BR has become a popular estate planning option — offering relief from IHT after two years whilst the investor retains access to the capital and any dividends paid.

Reference: GOV.UK, "Business Relief for Inheritance Tax", https://www.gov.uk/business-relief-inheritance-tax

Why use Business Relief

And what type of clients would benefit

1. **Fast-track inheritance tax relief**
   Unlike gifting or placing assets into trust, which can take seven years to fall outside of an estate for inheritance tax purposes, Business Relief qualifying investments can become eligible for inheritance tax relief after just two years, provided the investment is still held at death.

2. **Maintain access and control**
   Business Relief qualifying investments remain in the client's own name, allowing them to retain access to and control over their capital during their lifetime.

3. **Preserve the nil rate band**
   Business Relief qualifying investments do not use the nil rate band allowance. This can help preserve the allowance for other assets in the estate, such as the family home or other less liquid assets.

4. **Flexible estate planning solution**
   Business Relief can provide a practical solution for clients looking to mitigate inheritance tax while maintaining flexibility and avoiding the loss of control often associated with gifting strategies.

Ideal for clients seeking UK inheritance tax mitigation who want to retain access to and control over their capital, and who are comfortable investing in solutions where capital is at risk and liquidity may be limited.

Reference: GOV.UK, Business Relief; HMRC Inheritance Tax Manual. Rates current as at the date of publication and subject to change.

Qualifying assets & rate of relief

From 6 April 2026 the rules change. Transitional rules also apply for the period between 30 October 2024 and 5 April 2026. The 100% relief allowance currently sits at £2.5 million; assets above that qualify for 50% relief.

100% relief available on

(up to the £2.5m allowance)

A **Trading businesses**

A trading business or interest in a trading business — includes sole traders and partnerships.

B **Unquoted company shares**

Holdings of shares in unquoted companies — generally smaller companies not listed on a recognised stock exchange (not including AIM shares).

C **EIS investments**

Enterprise Investment Scheme investments held for the qualifying period.

Rate summary

100%

relief on qualifying assets up to £2.5m allowance

50%

relief on qualifying asset values exceeding the £2.5m threshold

Reference: GOV.UK, Business Relief; HMRC Inheritance Tax Manual. Rates current as at the date of publication and subject to change.

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Planning ideas

Common scenarios where Business Relief plays a role in estate planning conversations.

Mature estate, time-poor client

BR delivers IHT relief in 2 years - vs the 7-year PET clock.

Post-business-sale proceeds

Replacement relief can preserve qualifying status when reinvested.

Client unwilling to gift outright

Access to capital and dividends retained whilst relief is secured.

Trust-based planning

BR allowance applied to chargeable lifetime transfers.

Spousal allowance transfer

Up to £5m of qualifying assets can be covered between spouses.

Joint BR + Agricultural Relief estates

Allowance applied proportionately across qualifying assets.

Indicative scenarios for adviser discussion. Not a recommendation.

The BR market & wrapper mechanics

The BR market spans listed and unlisted strategies offered by a range of specialist managers. Wrapper mechanics, target returns and underlying exposures vary significantly - advisers should consider these in suitability discussions.

1 AIM-listed strategies

Portfolios of qualifying AIM-listed companies. Typically more liquid (subject to AIM trading conditions) and price-transparent. Higher volatility; sensitive to AIM market movements.

2 Unquoted strategies

Direct holdings in unlisted trading companies — often asset-backed, infrastructure, renewables or lending businesses. Lower volatility profile but inherently illiquid; valuations periodic.

Wrapper mechanics common across BR products

- Two-year qualifying period from date of allotment
- Investor remains shareholder — capital and dividends accessible
- Subject to manager discretion on liquidity and dealing windows
- Status reviewed periodically — BR is not guaranteed by HMRC in advance

What to consider when looking at BR Managers

- **Investment process** - Understand how the manager selects and monitors investments, including their approach to due diligence, risk management, liquidity and long-term capital preservation.
- **Diversification** - A diversified portfolio across sectors, companies and asset types can help reduce concentration risk and improve portfolio resilience.
- **Track record & experience** - Consider the manager's experience in managing Business Relief portfolios, including their investment expertise and history of delivering inheritance tax qualifying solutions.
- **Liquidity approach** - Assess how the manager manages liquidity and withdrawal requests, particularly as underlying investments may not be easily realisable.
- **Risk Profile** - Business Relief investments involve capital at risk, so it is important to understand the level of investment risk, volatility and potential for loss.
- **Ongoing monitoring & governance** - Review how the portfolio is monitored over time and how the manager responds to changing market conditions or regulatory developments.

BR administration & housekeeping (1/2)

Practical points for advisers and administration teams — from application through to ongoing servicing.

01 Application & allotment

Online or paper application. Allotment timing varies: typically 1–6 weeks for unquoted strategies and faster for AIM portfolios. Two-year clock starts from date of allotment, not date of application.

02 Documentation

Prospectus or IM, KIID/KID, two-pager, suitability assessment, application form, identity & source-of-funds checks. Consumer Duty target market documentation should be reviewed pre-recommendation.

03 Reporting & valuations

Periodic statements (typically half-yearly or quarterly). Unquoted holdings are valued on a periodic basis using established methodologies; valuations are estimates, not market prices.

04 Top-ups

Additional subscriptions are treated as new investments — each tranche has its own two-year qualifying clock. Important to track allotment dates per tranche.

05 Withdrawals

Subject to manager dealing terms — frequency, notice period, and any deferred-redemption mechanism. Withdrawals before the two-year mark forfeit BR status on the amount withdrawn.

BR administration & housekeeping (2/2)

Dealing with deaths and claiming relief — plus common pitfalls advisers and admin teams should watch for.

Dealing with deaths & claiming relief

1

Notification

Estate notifies BR manager of death. Manager freezes the holding pending probate confirmation.

2

Probate documentation

Grant of probate, death certificate and executor IDs required. Manager confirms two-year qualifying period was met at date of death.

3

IHT400 / IHT413

Executors complete IHT400 and IHT413 (business interests). Relief is claimed against qualifying value held at death — not at original cost.

4

Distribution or continuation

Holding distributed to beneficiaries (BR continues if asset still qualifies) or encashed and proceeds paid out.

Common adviser & admin pitfalls

! **Two-year clock confusion**

Clock runs from allotment, not subscription. Each top-up restarts the clock for that tranche.

! **Status is not guaranteed**

HMRC does not pre-clear BR. Qualifying status is assessed at the relevant date — typically date of death.

! **Suitability documentation**

Higher-risk unlisted exposure must be properly documented in the suitability report — not assumed from estate planning context.

BR vs traditional gifting

BR-qualifying investments and traditional outright gifts (PETs) are both used for estate planning. The mechanics differ materially — advisers should compare both routes for client suitability.

BR-qualifying investment	
Time to relief	Two years
Access to capital	Retained
Access to income	Dividends paid out
Investment risk	Higher - unlisted trading companies
Status risk	Relief withdrawn if the business ceases to qualify
Allowance impact	Uses 100% relief allowance (£2.5m)

Traditional gifting (PET)	
Time to relief	Seven years (taper from year three)
Access to capital	Lost — gift is irrevocable
Access to income	None — no reservation of benefit
Investment risk	Depends on what the recipient does
Status risk	Relief lost if donor dies within seven years
Allowance impact	Uses NRB / annual gifting allowance

Note: BR investments must be balanced against the increased investment risk of unlisted smaller companies and the risk that BR may be withdrawn if the business no longer qualifies in future (e.g. if it becomes publicly listed).

Contact us

Please contact the LightTower Partners team for more information and support including:

- Prospectuses and application forms
- Marketing materials and client-friendly resources
- Independent reviews and suitability guidance
- Generic tax guidance on VCTs
- CPD-qualifying presentations
- Dedicated adviser support team
- Client illustrations tailored to individual scenarios

Please email or call **020 7071 3920** for any further information you require.



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Appendix

