Don't invest unless you're prepared to lose all the money you invest. This is a high-risk investment and you are unlikely to be protected if something goes wrong. Take 2 minutes to learn more on page 3

CASE STUDY

BLACKFINCH
INVESTMENTS

Sale of a Business

Scenario

There are many reasons why a client might be thinking about selling their business – retirement and ill health are just two of the most common motivations. Whatever the reason, clients often neglect to review the inheritance tax (IHT) implications that could arise from selling their business. This is particularly important in instances where the client's business qualified for Business Relief (BR), as the sale of the business is likely to mean the proceeds become liable to IHT.

A Potential Solution

One useful option available to clients would be to reinvest the proceeds from the sale of their business into an investment that qualifies for BR. Provided the proceeds were reinvested within three years of the date of sale, this would mitigate the IHT liability while ensuring the client retained control over, and access to, their money.

The client can expect to either retain or regain IHT exemption on the proceeds almost immediately (as soon as the week after making the investment), which could prove particularly important for a client in ill health.

Also, clients do not have to wait a further two years for their BR-qualifying investment to become free from IHT. Once the proceeds have been invested, their investment benefits from 'Replacement Relief'. This allows business owners and investors to replace one BR-qualifying asset with another within three years, without 'resetting' the two-year holding period.

Providing the client holds the BR-qualifying investment at the time of death, and it has been held for at least two out of the last five years (this could be two 12-month periods or any other combination) the investment is IHT-exempt.

For clients, one of the most appealing aspects of this solution is that it ensures they retain control over their investment, without having to 'gift' money away to reduce their IHT liability. The money is available should they need it to pay for care costs or any other outgoings, although any money withdrawn from the investment no longer becomes IHT-free and could form part of their taxable estate.

A Useful Case to Mention to Accountants and Solicitors

An interesting court case example often referred to when discussing IHT planning is the case of Swain v Mills and Reeve, which took place in 2012. In this case, a firm of solicitors acted for a client in relation to the sale of his company via a management buyout (MBO). Shortly after the MBO took place, the client underwent heart surgery and died from complications. This resulted in the clients' children being left with an IHT liability that would not have arisen if the client had their assets (re)invested in other BR-qualifying assets. A claim was brought by the client's children alleging the solicitor had been negligent in not referring the client for IHT advice in this situation.

Blackfinch is an established provider of tax-efficient solutions.

If you would like to find out more about our IHT solutions and how we can support your work with clients, please call us on **01452 717070**, email **enquiries@blackfinch.com** or visit **www.blackfinch.com.**

IMPORTANT INFORMATION

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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).