



Understanding Business Relief

What is business relief?

Business Relief is a relief from Inheritance Tax that was introduced in the 1976 Finance Act. It aims to reduce the value of a business or its assets (including shares in qualifying businesses) which is considered when calculating how much Inheritance Tax ('IHT') needs be paid.

How much IHT relief is available?

Relief from IHT is available at either 100% or 50%.

Currently (and up to 05 April 2026), where the asset is a share in an unlisted trading company, 100% IHT relief is available.

With effect from 06 April 2026, where the asset is a share in an unlisted trading company, 100% Business Relief is available (capped to the first £1m of qualifying asset). For any assets that exceed the £1m tax-free allowance, 50% Business Relief is available and IHT is payable on the excess.

To be eligible for Business Relief, the qualifying shares must have been owned for at least two years and must be owned at the time of the shareholder's death.

Why is Business Relief relevant to your clients?

When your client purchases one of London & Colonial Assurance's ('LCA') flexible annuities they also have the opportunity to purchase a Preference Share in LCA.

LCA is a Protected Cell Company, which means that legally recognised 'Cells' are created within the company to segregate and protect each policyholder's assets. Each Cell has its own designation (the flexible annuity number).

In the event of your client's death, the flexible annuity ceases but the owner of the Preference Share can then redeem the Share in exchange for the value of the assets that remain within the Cell. As LCA is an unlisted trading company, the Preference Share should qualify for Business Relief.

What are the advantages of holding investments that qualify for Business Relief?

- Under current legislation (up to 05 April 2026), the proceeds of LCA's Preference Share together with the accompanying residual assets in your client's Cell can be passed to their Estate free of IHT on their death, provided they have owned the Preference Share for at least two years and continued to hold it on their death. When compared to making gifts or settling assets into trust, which takes seven years to become fully exempt from IHT, investing in Business Relief assets is a more expeditious route to obtaining IHT exemption.
- Although it is possible to gift LCA's Preference Share or settle it in trust (independent legal and tax advice is recommended), Business Relief allows your client's wealth to remain under their own name.
- Business Relief does not reduce a client's individual Nil-Rate Band ('NRB') allowance.

How does Business Relief work?

Business Relief reduces the value of qualifying business assets chargeable to IHT. When your client dies, their legal personal representatives (Executors if your client has a will or Administrators if no will) must apply for Probate. Where there is IHT payable, the Estate may be entitled to Business Relief on the Preference Share.

As part of the Probate process, the legal personal representatives must complete IHT400, which is available from the UK Government's website (www.gov.uk).

Within IHT400, as LCA is an unlisted trading company, Q39 should be ticked "Yes" and Schedule IHT412 completed. Within IHT412 complete Box 1:

- with LCA's name,
- the number of Shares held (normally this will be 1),
- the value of the remaining assets within the Cell (on notification of death LCA will value the assets that remain within the Cell and forward this to the legal personal representatives),
- dividend due up to date of death is zero (no dividends are payable under the Preference Share),
- did the deceased own the Preference Share for two years or more? The reason for asking this question is that for Business Relief to be available on the value of the Preference Share the deceased must have owned the share for at least two years before their death.
 - o If the answer is No Business Relief will not be available.
 - o If the answer is Yes Business Relief at 100% is available (currently and up to 05 April 2026)
- The amount of Business Relief due will be the value of the remaining assets within the Cell. Then within IHT400:
 - Add the total value of the remaining assets within the Cell in Box 65,
 - Add the amount of Business Relief (same figure as Box 65) in Box 92.

Please note HMRC assesses Business Relief when the Estate makes a claim after death. The above is based on LCA's understanding of applicable UK tax rules, which can change in the future. LCA accepts no responsibility for any changes in legislation or HMRC assessing that Business Relief is not available.



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