What is Business Property Relief?

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Close Brothers Asset Management

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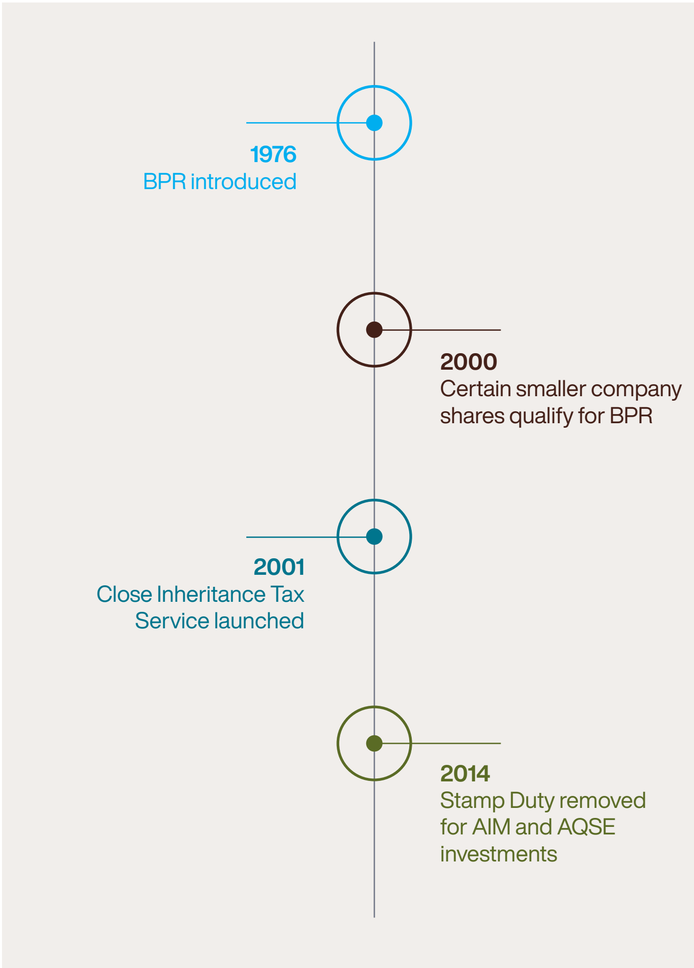
Introduced in 1976 and updated in 1984, BPR is part of Inheritance Tax (IHT) law and is a statutory relief, enshrined in legislation. In 1996, the scope of the relief was widened to include investors with 'non-controlling shareholdings in qualifying businesses'.

The original purpose of BPR was to protect growing businesses from being dissolved to pay estate duties when the business owner passed away. Today, BPR also acts as an incentive to encourage the growth and development of fledgling and family businesses.

BPR Investment Services
When non-controlling shareholdings were brought into the scope of BPR, discretionary investment services that aimed to qualify for the relief were introduced.

The number of these services has grown over the last twenty years, and they cater to different investment objectives, but broadly fall into AIM-based portfolios and private company solutions.



There are risks associated with BPR which mean that investments in qualifying assets will not be suitable for everyone. They should be considered as high risk due to the nature of the companies that the investments are held in.

Qualifying assets are likely to exhibit higher volatility and offer less liquidity than other main market investments. In addition, tax rules and reliefs may change and there can be no guarantee that the IHT benefits will be achieved.

Should your clients be considering a BPR investment?

Is the client confident of surviving the seven years it normally takes for gifts and trusts to become 100% IHT exempt?

↓ **NO** ↓

CONSIDER BPR
BPR provides 100% exemption from IHT after two years, as opposed to seven years for gifts.

Does the client anticipate that they might need access to their funds in the future?

↓ **YES** ↓

CONSIDER BPR
Unlike gifts, investors in BPR qualifying assets retain full control of their funds.

Is the client willing and able to accept higher than average investment risk?

↓ **YES** ↓

CONSIDER BPR
Diversification and rigorous investment research can be used to help manage risk.

How much could you save?
Client without a BPR qualifying portfolio
House valued at £500,000
£100,000 in cash
£50,000 in other assets
£350,000 in stocks and shares
Total IHT payable on death (after personal allowance) = £270,000
IHT saving = £0

Client with a BPR qualifying portfolio
House valued at £500,000
£100,000 in cash
£50,000 in other assets
£150,000 in stocks and shares
£200,000 in CITS (for more than two years)
Total IHT payable on death (after personal allowance) = £190,000
IHT saving = £80,000

This example is for illustration purposes only and does not include any assumptions on gains or losses made on any assets held. Any tax benefits realised will be dependent on individual circumstances. Tax rules can change in the future.

The residence nil rate band was introduced in April 2017, and provides a tax-free allowance of up to £175,000 for each person to use against the value of their home, provided they leave it to their children or grandchildren. This example does not include this tax-free allowance.

AIM portfolios or private company solutions?

Alternative Investment Market (AIM) shares that qualify for BPR can provide relief from IHT in as little as two years

The graphic below explains why investing in AIM may be suitable for IHT relief. It's important that advisers have a thorough understanding of both the IHT and investment implications of any BPR strategy before making a recommendation to a client.

Liquidity Does the client require liquidity, or the ability to liquidate smaller amounts of their investment?	→ **YES** →	**Consider AIM** Although liquidity is subject to market conditions, and cannot be guaranteed, listed shares are generally more liquid than private companies.
Diversification Does your client want to diversify their investment risk?	→ **YES** →	**Consider AIM** AIM portfolios are typically more diverse than private company solutions, as they can spread over a number of different sectors.
Risk Tolerance Is the client willing and able to accept volatility?	→ **YES** →	**Consider AIM** Listed shares on AIM and smaller exchanges can be more volatile than private companies, and not suitable for all clients.
Growth Is achieving long-term growth also important for your client?	→ **YES** →	**Consider AIM** Many private company shares target low levels of growth.

Close Inheritance Tax Service

The Close Inheritance Tax Service (CITS) is a specialist, discretionary investment management service designed to provide accelerated relief from IHT by investing in BPR qualifying shares quoted on the Alternative Investment Market (AIM) and the Aquis Stock Exchange (AQSE).

Providing each investment in the portfolio has achieved a two year holding period at death, all the capital invested and any growth in qualifying-shares will achieve BPR and therefore will not be subject to IHT.[1]

CITS is one of the longest running AIM-based IHT services on the market, and the Service has a successful track record. Since its launch in March 2001, it has proved effective in protecting clients' estates from IHT.

KEY BENEFITS

- Relief from IHT in as little as two years
- Clients keep control of, and access to capital
- No complex or costly legal structures
- A client's power of attorney can choose this as an investment-based solution, provided this would be a suitable investment and in the best interest of the client[2]

[1] This is not a capital protection service and your client's capital is at risk.

[2] It is recommended that an attorney check that this is permitted by the relevant instrument that sets out the extent of their activities.

Please contact your regional Business Development Director for more information. closebrothersam.com/ifa

IMPORTANT INFORMATION:

CITS is a high risk investment by virtue of its target market of AIM listed stocks. The volatile nature and relatively poor liquidity of some of these stocks should be clear to any client looking to invest. The minimum holding period of two years should also be clearly communicated by advisers to clients so they can factor the time horizon into their assessment of whether the risk profile of the service is appropriate.

Please note, this is not a capital protection service and capital is at risk. The nature of smaller companies investment involves higher risk than more mature companies. The value of investments will go up and down and clients may get back less than invested.
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