Inheritance tax – not a future you problem!

The Budget at the end of October may have painted a doom-and-gloom picture of the future for business owners and entrepreneurs. But, as Daniel Wood of 7IM points out, there are still ways they can protect the value of their estate from inheritance tax (IHT).

The common denominator of all solutions is early planning. Yes, you can often get away with not worrying about IHT until the later stages of your career. But unfortunate events can occur, which might mean a large chunk of your hard-earned legacy goes to HMRC, rather than your family. And, in any case, the sooner you start planning, the larger the benefits should be.

Whatever the stage of your career, or indeed of your business, going through the basics of financial planning in the context of how your business develops is vital, given the landscape is changing. Think, for example, of the changes to business property relief recently made by government, which will come into effect from 2026.

This is why financial advice can provide enormous value for you and your family's wealth over the long term.

Protecting you – and your business

The changes announced in the Budget will be rolling out over the next few years, so it's important to ensure you have the appropriate protection in place.

In some cases, that could mean arranging to put some elements outside your estate so they can be shielded from IHT.

For business owners, making use of a company life assurance policy could prove extremely useful. Where a business benefits from corporation tax relief, the policy itself can also sit outside your estate where the payout is made via a trust. It will therefore be exempt from IHT.

For employees, this is a benefit – exempt from employment income taxes – so it doesn't count towards their annual pension allowances. In addition, it doesn't trigger any capital gains tax, nor does it incur national insurance contributions on premiums.

For the company, the premium would be seen as a benefit in kind and would therefore be taxable at the marginal rate of the individual. In some cases, a life assurance plan could also be free of employer national insurance contributions on premiums, making it doubly tax efficient.

Life assurance policies can also strengthen business continuity, as they can be used to cover business loans or debts. They could help to fund shareholder agreements: in the unfortunate event of one shareholder's death, the policy would enable the surviving shareholders to buy the deceased's shares without impacting the company's cashflow.

Some policies could offer key person cover to protect the business, as well as protection extending to these employees' families. So it is worth investigating if it would make financial sense for the company to incorporate these aspects into the policy.

A life assurance policy can bring significant savings for both employees and the company. For business owners, it should always be perceived as a way to help the business grow and as an efficient long-term financial planning tool which sits outside their estate.

As always, taxation will depend on your individual circumstances and may be subject to change, so it is important to seek regulated financial advice to find the best course of action for your particular circumstances.

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