

CASE STUDY

Stellar talks tax



Qualifying for Business Relief: Replacement Conditions

For investment professionals only

Qualifying for Business Relief: Replacement Conditions

At Stellar, we're committed to helping you navigate the intricacies of inheritance tax planning. Let's delve into the conditions for replacement relief - a crucial aspect of Business Relief (BR) that could significantly impact your tax-efficient legacy.

- ★ The combined ownership period of both the original and replacement assets must span at least two years within the five years preceding the asset transfer, whether by gift or upon a death.
- ★ You have a three-year window to reinvest the proceeds from selling your original BR asset into a new BR-qualifying asset.
- ★ Both assets must meet all BR conditions at the point of sale, replacement, and transfer - with one key exception: the two-year rule.

Illustrating Replacement Relief

Consider this situation: Richard purchases BR-qualifying shares but sells them after just one year. Three years later, he reinvests the proceeds into a new BR-qualifying asset. To secure BR qualification, Richard only needs to hold this new asset for one more year.

Now, let's flip the script. If Richard had held his original BR asset for two years before selling, upon reinvesting the proceeds within three years into a new BR asset, it would immediately qualify for BR. Why? Because the combined holding period of the old and new assets meets the crucial two-year threshold.

Replacement Relief

A Lifeline for Spouses

When it comes to BR and spousal transfers, the rules take an interesting turn. If a spouse passes away holding proceeds from the sale of BR assets and these proceeds are bequeathed to their surviving spouse, special provisions come into play.

In essence, the surviving spouse steps into the shoes of the original owner for BR replacement relief purposes. They're treated as if they personally sold the original BR asset, inheriting the deceased spouse's ownership period.

This opens up a valuable opportunity: the surviving spouse can reinvest these proceeds into another BR asset. Provided they meet the replacement relief conditions - including the three-year reinvestment window - the new BR asset should qualify for BR in the hands of the surviving spouse.

It's worth noting that from the perspective of the deceased spouse, this transfer is exempt from inheritance tax under the spousal transfer rules.



Looking ahead: From 6 April 2026, 100% IHT relief will continue for the first £1 million of combined agricultural and unquoted Business Relief qualifying property (e.g., sole traders, partnerships, unquoted companies). Amounts exceeding £1 million will attract 50% IHT relief. Business Relief qualifying companies listed on the Alternative Investment Market (AIM) will benefit from 50% IHT relief, regardless of the investment amount.

At Stellar, we're here to help you build a tax-efficient legacy. Our expertise in Inheritance Tax planning can help you navigate these complex rules and unlock hidden value within your investments. Contact us today to discover how we can assist you in preserving your wealth for future generations.

With thanks to our friends at WBR Group for the advice on the contents of this note.

Get in touch

We're here to help

Investors

We recommend you speak to a Financial Adviser in the first instance, as we cannot offer investment or tax advice.

If you have any other questions please contact us on 020 3195 3500 or email us at enquiries@stellar-am.com

For further information, please visit www.stellar-am.com

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STT-RC-0425