Tax and Wealth Planning for Entrepreneurs and Family Business Owners

4 June 2025

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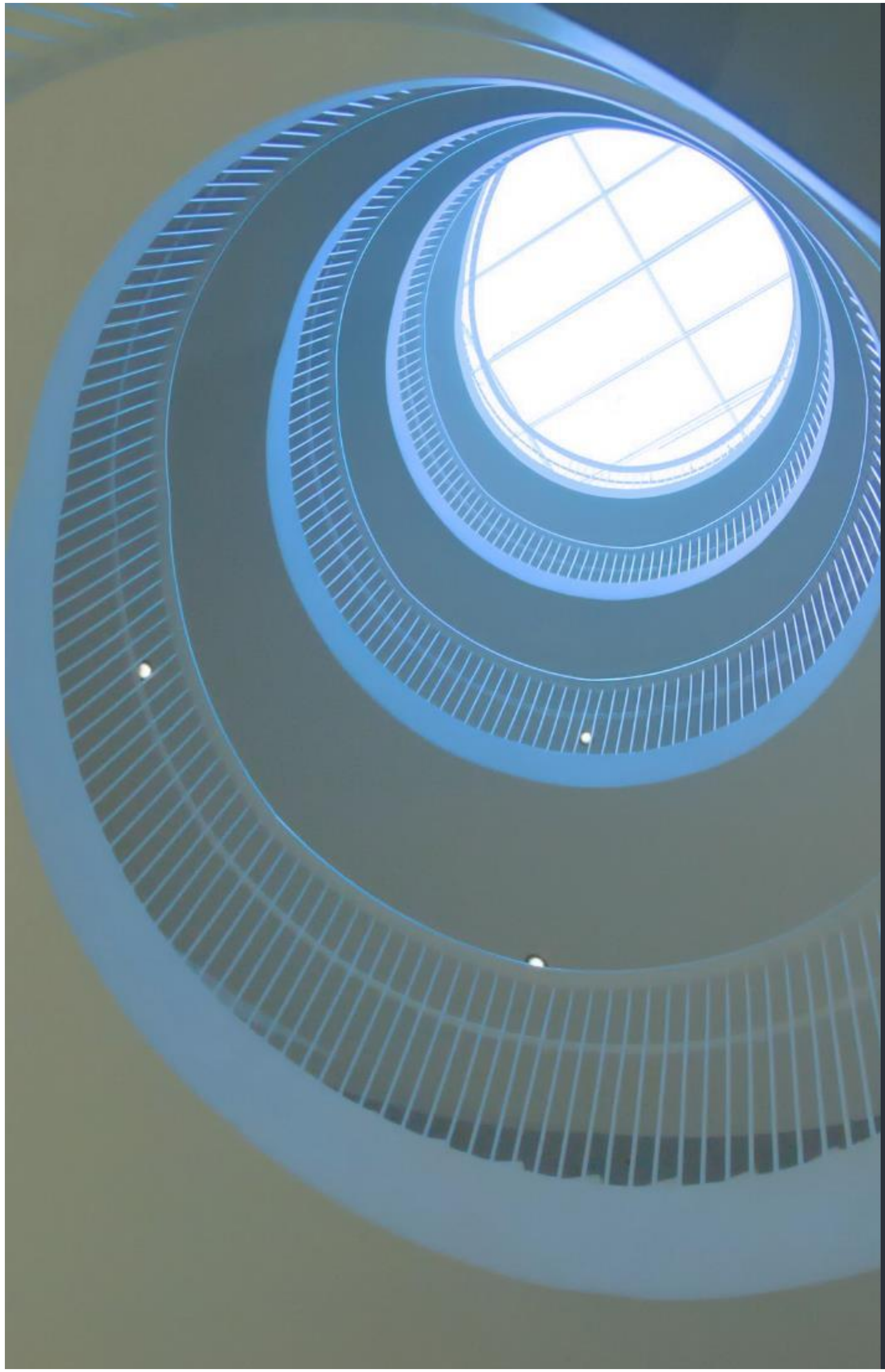


We'll cover…

- **Introduction**
- **Tax Planning for Entrepreneurs and High Earners**
- **Share Plans and Exits**
- **Wealth Planning:**
  - Accumulation
  - Lead up to retirement
  - Decumulation
- **IHT Planning**
  - APR/BPR changes from 6 April 2026
  - Family Investment Companies

Tax Planning for Entrepreneurs and High Earners

James Kipping, Partner

Pensions Tax Relief

- Marginal rate tax relief is very generous – use it!

- Annual Allowance of £60,000 and can bring forward previous three year's unused contributions.

- Personal contributions restricted by level of earned income, but everyone can contribute up to £3,600 gross (£2,880 net) per annum.

- Annual Allowance restricted for high earners or where individuals have accessed pension benefits.

- Annual Allowance reduced by £1 for every £2 that an individual's 'Adjusted Income' exceeds £260,000 to a minimum of £10,000.

- Those who have accessed pension benefits restricted to the Money Purchase Annual Allowance of £10,000.

High earning business owners may be able to maximise their Annual Allowance entitlement by the timing of dividends from personal companies.

	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	Total
Income	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£3,000,000
Annual allowance	£10,000	£10,000	£10,000	£10,000	£10,000	£10,000	£60,000
Contributions	£10,000	£10,000	£10,000	£10,000	£10,000	£10,000	£60,000

	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	Total
Income	£200,000	£800,000	£200,000	£800,000	£200,000	£800,000	£3,000,000
Annual allowance	£60,000	£10,000	£60,000	£10,000	£60,000	£10,000	£210,000
Contributions	£60,000	£10,000	£60,000	£10,000	£60,000	£10,000	£210,000

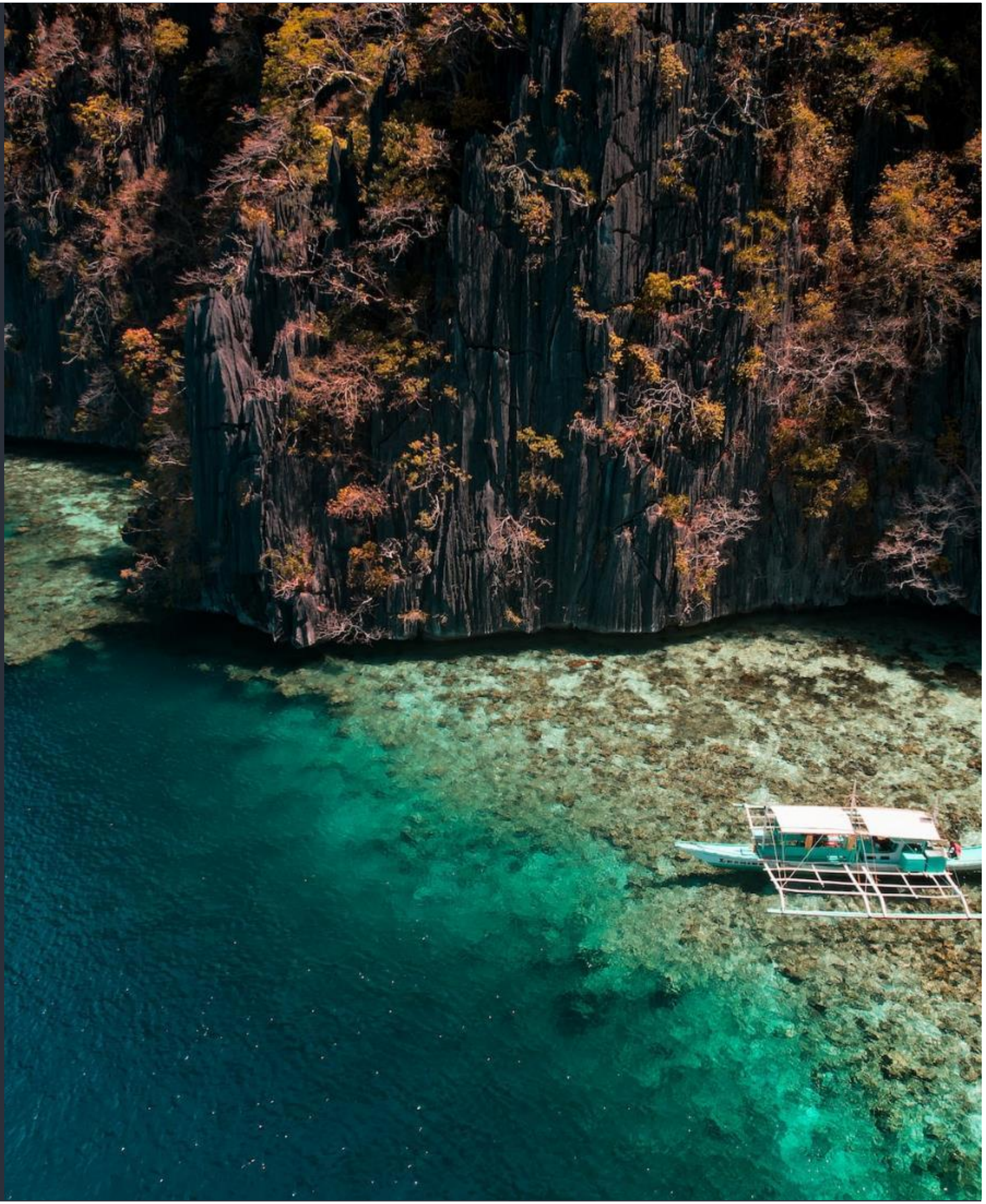
Marginal rate tax relief is particularly valuable for individuals who fall into the 60% tax band on incomes between £100,000 and £125,140.

If someone with income of £125,140 makes a gross pension contribution of £25,140 (£20,112 net) it will cost them just £10,056 after tax relief.

	No contribution	No contribution	Tax saving
Income	£125,140	£125,140	
Personal Allowance	-	(£12,570)	
Taxable	£125,140	£112,570	
£37,700 @ 20%	£7,540	£7,540	
£25,140 @ 20%	-	£5,028	
Balance at 40%	£34,976	£19,892	
Total Tax	£42,516	£32,460	£10,056

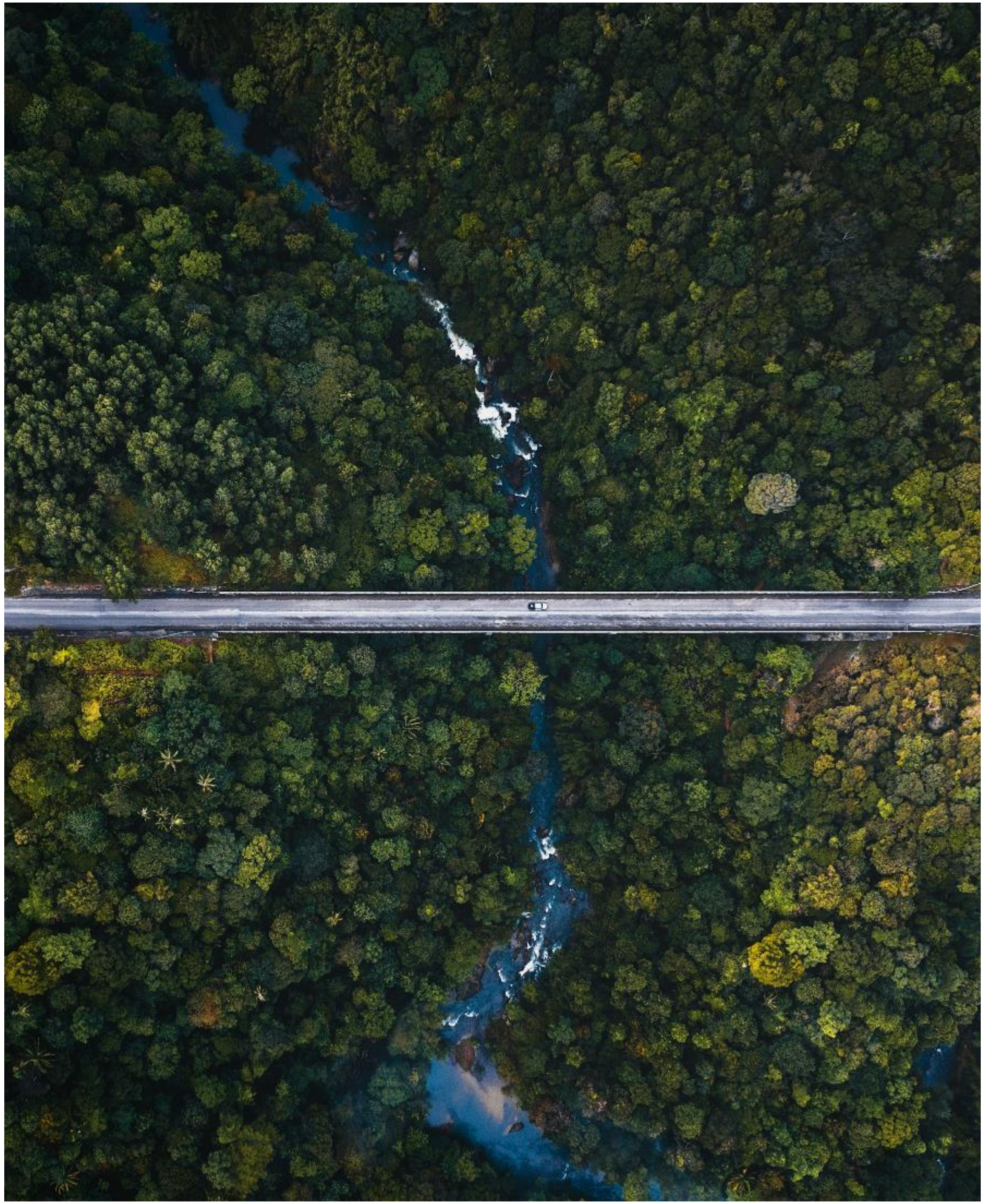
Pension Contributions for Family

- Consider making pension contributions for family… grandchildren maybe?
- Net contribution per annum £2,880.
- Tax relief added per annum £720.
- Gross contribution per annum £3,600.
- X 18 years £64,800.
- With 6% compound growth from age 18 the value at age 65 would be £1,002,191.



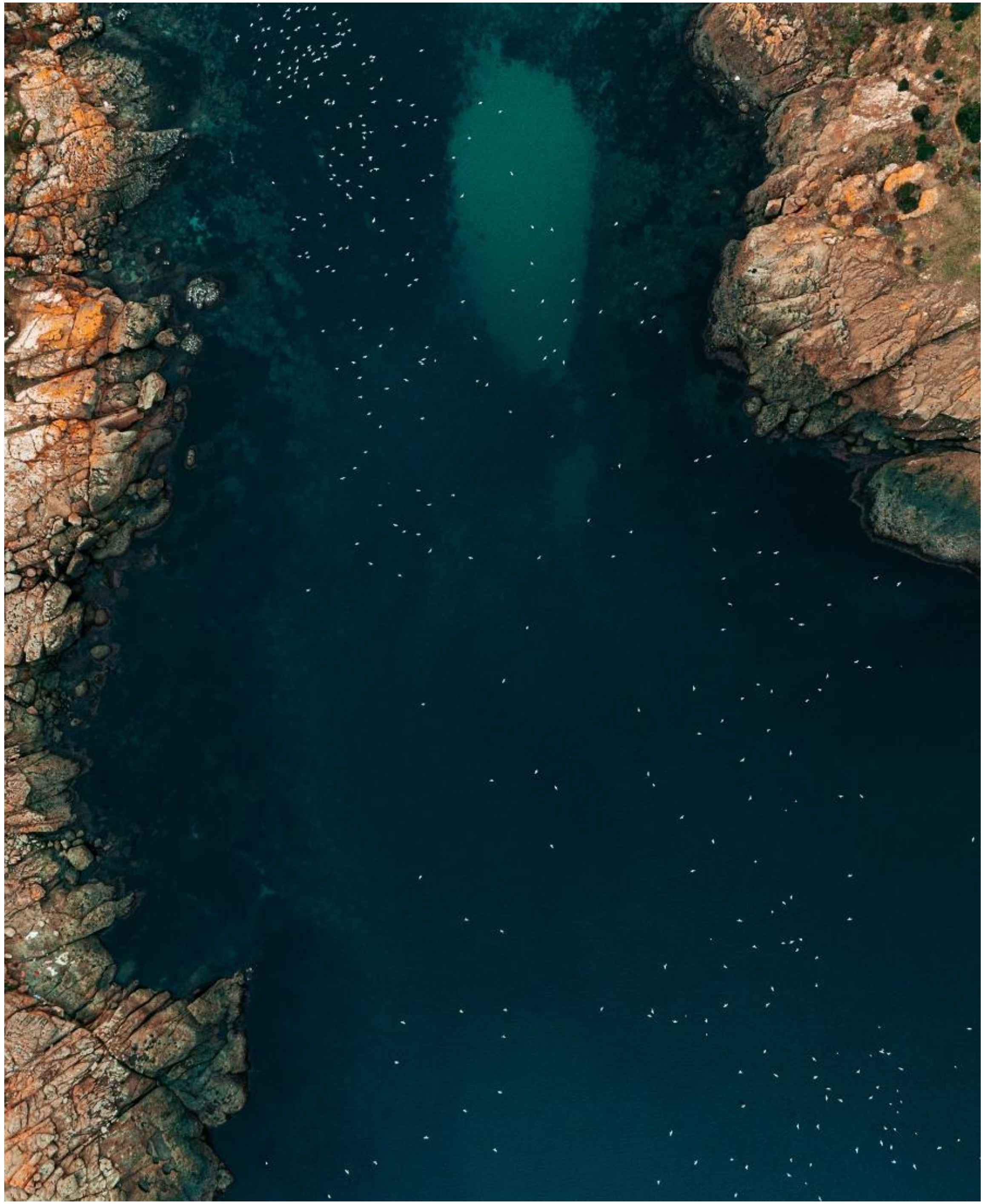
What about changes from the Autumn Budget 2024?

- Income tax: no changes
- Inheritance tax after 5 April 2027:
  - Basically, unused pensions will be added to the free estate and liable to IHT
  - NRBs apportioned
  - PSA pays IHT in respect of pension fund
- Double Taxation
  - Inheritance tax + income tax
  - Effective rate: **67%**
  - With loss of nil rate band: nearly **90%**



Planning for the Changes

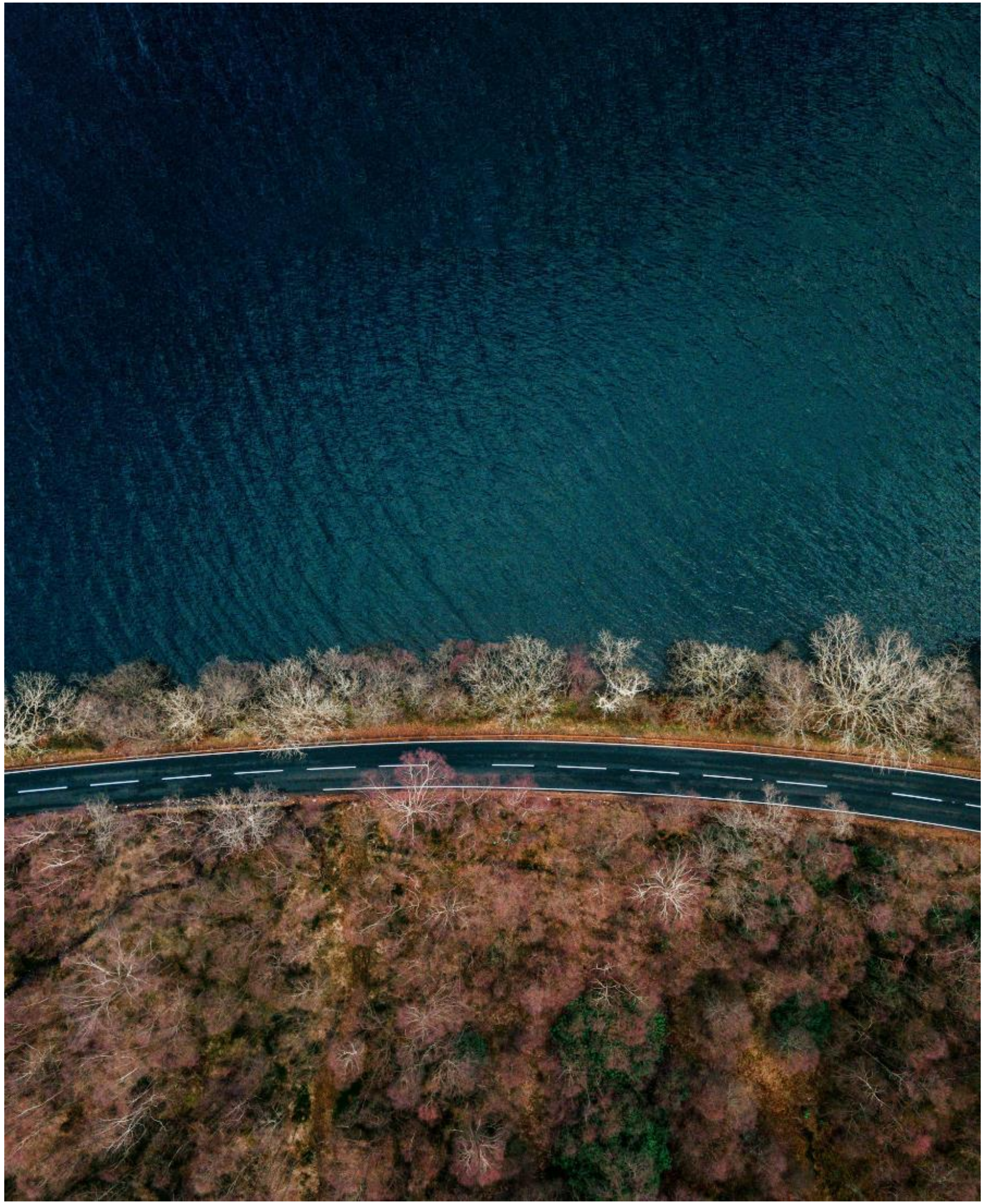
- A significant change of approach for many.
- Plans will depend on personal circumstances.
- Tax advantage of the spouse exemption.
- Making PETS of the tax-free cash.
- Making gifts of taxable income withdrawals.
- Business Property Relief.
- Business owners may draw on pensions in priority to remuneration.
- Annuities.



Venture Capital Trusts

An alternative for high earners

- High earning professionals may be impacted by the tapered Annual Allowance.
- If income exceeds £360,000 the minimum Annual Allowance of £10,000 will apply.
- Venture Capital Trusts may be an alternative to provide income tax relief.
- Income Tax relief at 30% of the initial subscription. Must be held for minimum of 5 years.
- Tax free dividend income.
- Possibility for VCT reinvestment every five years.



Example: Pension & VCT Combination

Someone who might ordinarily have contributed £60,000 per annum to their pension at a cost of £33,000 might instead contribute:

- £10,000 to their pension at a cost of £5,500
- £39,286 to VCTs at a cost of £27,500
- Total cost of investments is still £33,000.

Based on the following assumptions:

- 5% annual VCT dividend reinvested
- 5% discount to NAV on sale
- 0% capital growth.

By year 12:

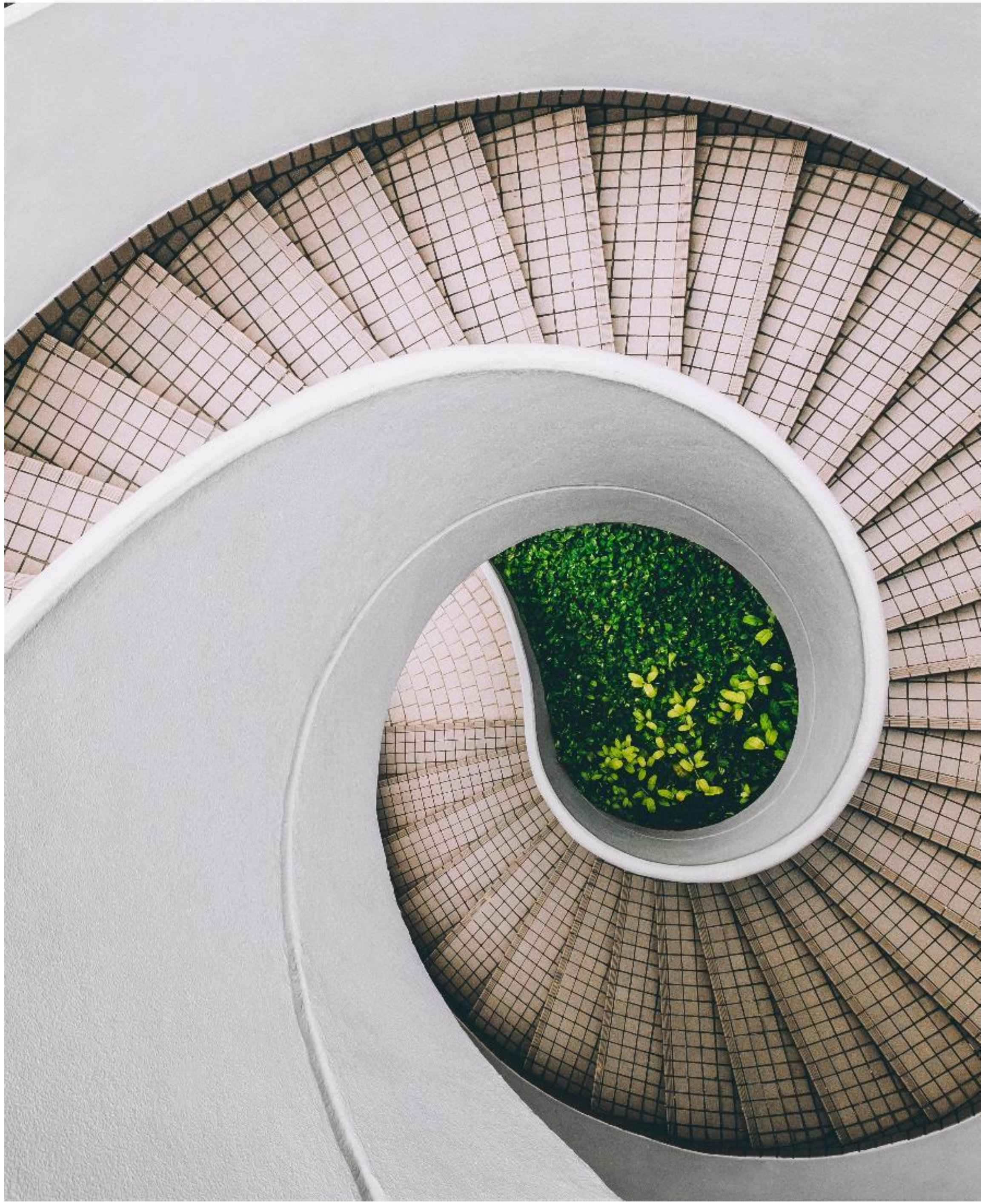
- VCT wealth is £731,901 following contributions (net of tax relief) of £324,582
- £200,000 annual maximum VCT subscriptions are self-funding
- Total dividends of £165,524 reinvested on which tax relief of £49,657 obtained.

Share Plans & Exits

Steven Tebbutt, Partner

Share Plans & Retirement

- Retaining & rewarding key people is vital in OMBs.
- Structural planning often overlooked until too late.
- Exit options have evolved – new routes to legacy.
- Tax benefits - but not the whole story.



Share Plans
Retention & reward

- Attract, retain & motivate key staff.
- Align interests – incentivise long-term thinking.
- Can bridge gap to succession.
- Gradual transfer of value to next gen.

EMI

CSOPs

Growth shares

Popular structures

Common Share Plan Considerations

- Commercial goals vs tax efficiency.
- Impact on control and shareholder dynamics.
- Valuation – key for compliance and fairness.
- Communication is critical – staff must understand the value.
- Confidentiality?

Pre-Exit Structuring

Key goals

1. De-risk key assets (e.g. property, IP, cash)
2. Make the business more attractive for sale
3. Provide flexibility for future options
4. Unlock tax efficiencies (e.g. SSE, BADR)

Common Structures

Holding Companies
Centralise ownership

Demergers
Split trade from property/assets

Mergers/Group Simplification
Tidy structure

Advance Clearance Process
Plan ahead

Exit Strategy Options

Trade sale

Classic, but not always cultural fit - Invasive

MBO

Keeps it in the team

Next gen

When family is involved

EOT

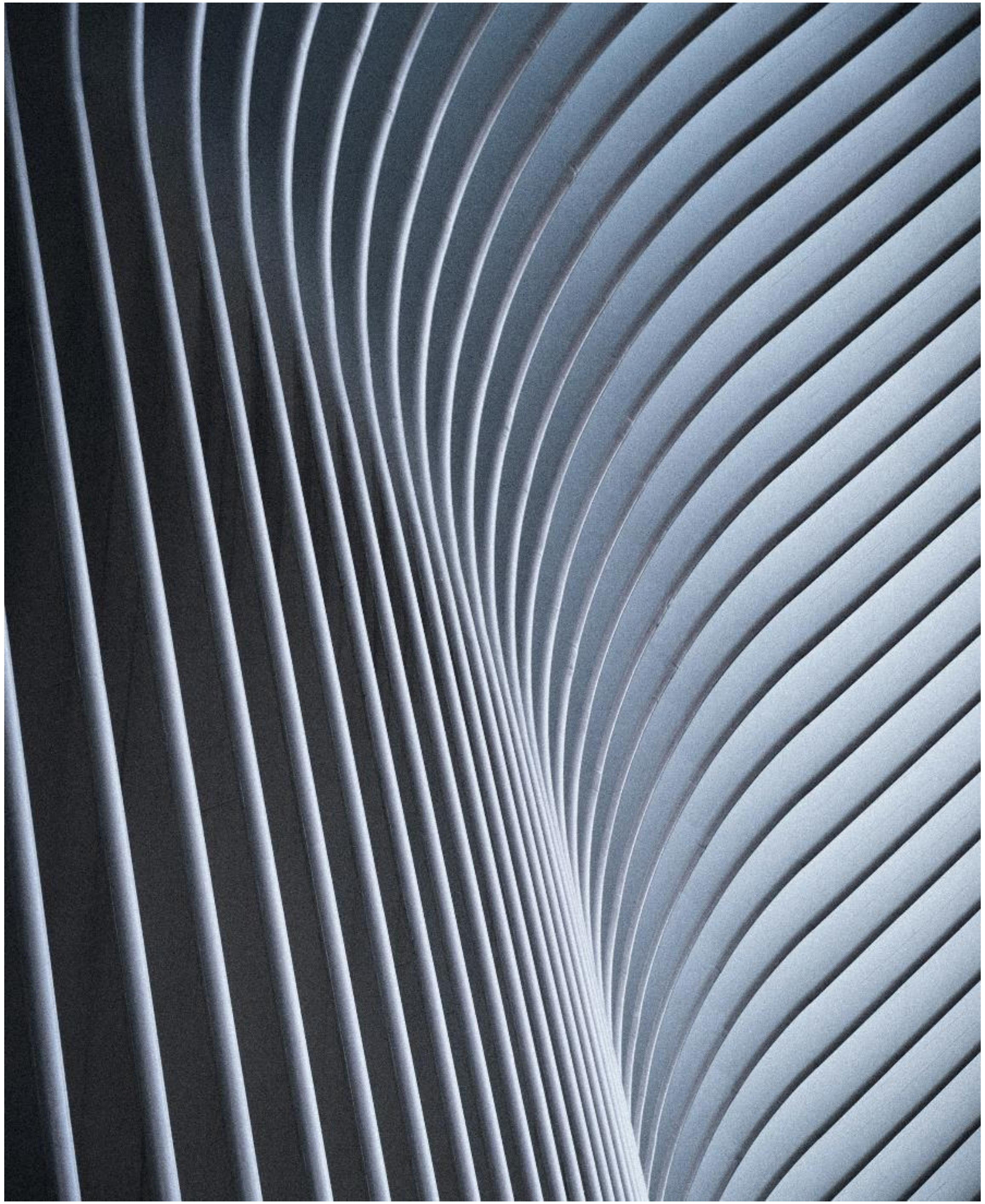
Rising in popularity

Employee Ownership Trusts
The headlines

- 0% CGT for selling shareholders.
- Strict conditions; must transfer **control** to trust, careful valuation.
- Employees become **indirect** owners.
- Can reward all staff tax-free (£3.6k p.a.).
- Often delivers cultural continuity.

Summary
What to consider

- No one-size-fits-all – understand the goals.
- Start early – give owners options.
- Talent retention often first step to succession.
- EOTs growing, great fit for some people.
- Structural planning pays dividends later.



Accumulation

Phil Brook, Independent Financial Advisor

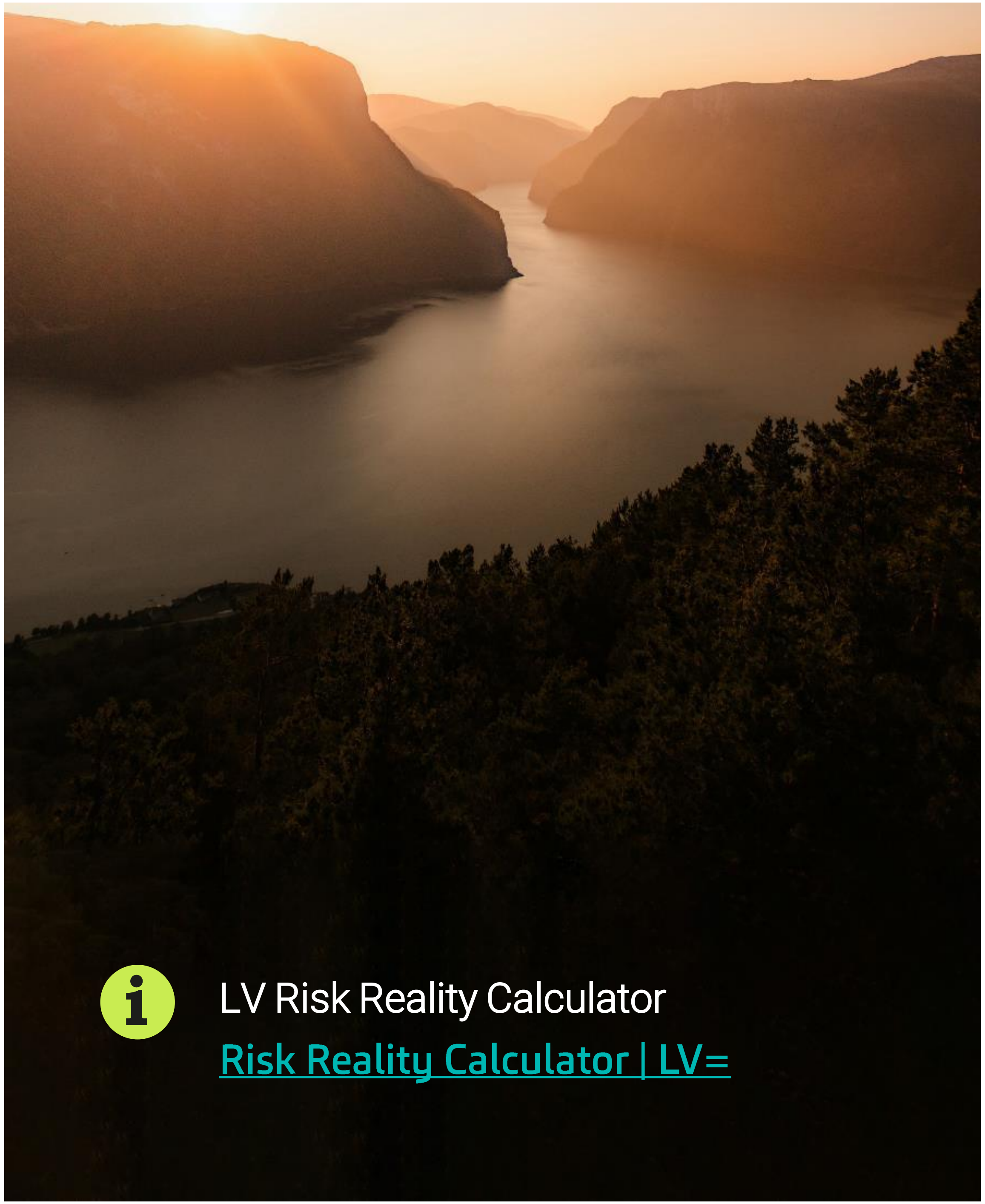
Building Financial Resilience

What is the likelihood of your client:

- Being unable to work for two months + (due to illness or injury).
- Suffering a serious illness.
- Dying.

Planning options:

- Personal and Business Protection.
- Wills.
- Lasting Powers of Attorney.
- Pension Nominations.

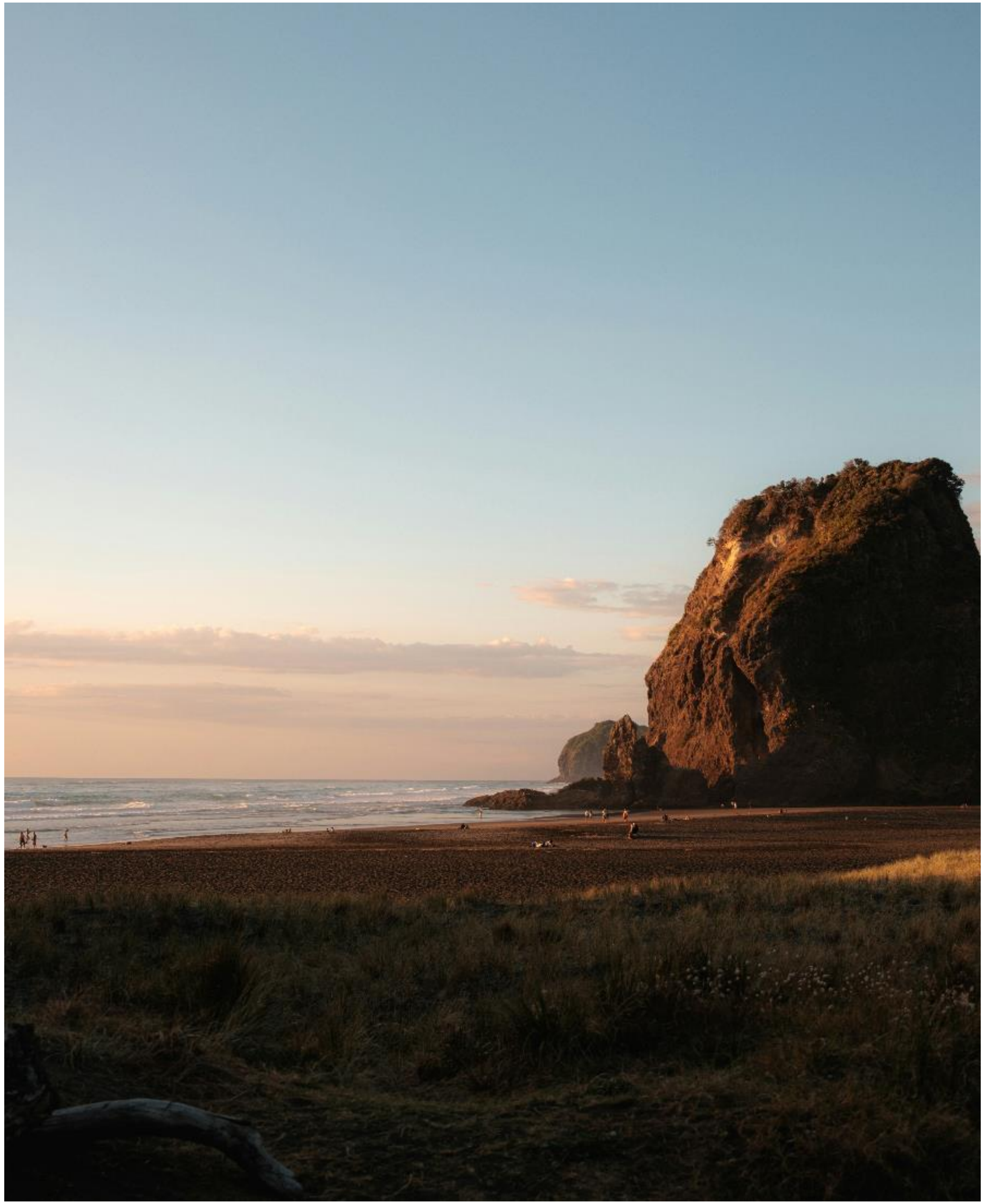


LV Risk Reality Calculator

Risk Reality Calculator | LV=

Consider Building Pensions

- See Retirement Living Standards Webpage - Home - PLSA - Retirement Living Standards
- A ‘comfortable’ lifestyle in retirement would currently cost an individual £43,100 per annum and a couple £59,000 pa.
- A pension pot of £1.05M (taxable part excluding PCLS) would be required at age 60 to fund the purchase of a single life annuity which escalates by 3% per annum (no protection).



Beyond Pensions
Alternative wealth building strategies

Enterprise Investment Schemes (EIS)

Business owners can invest in early-stage companies with the potential for high-growth and benefit from:

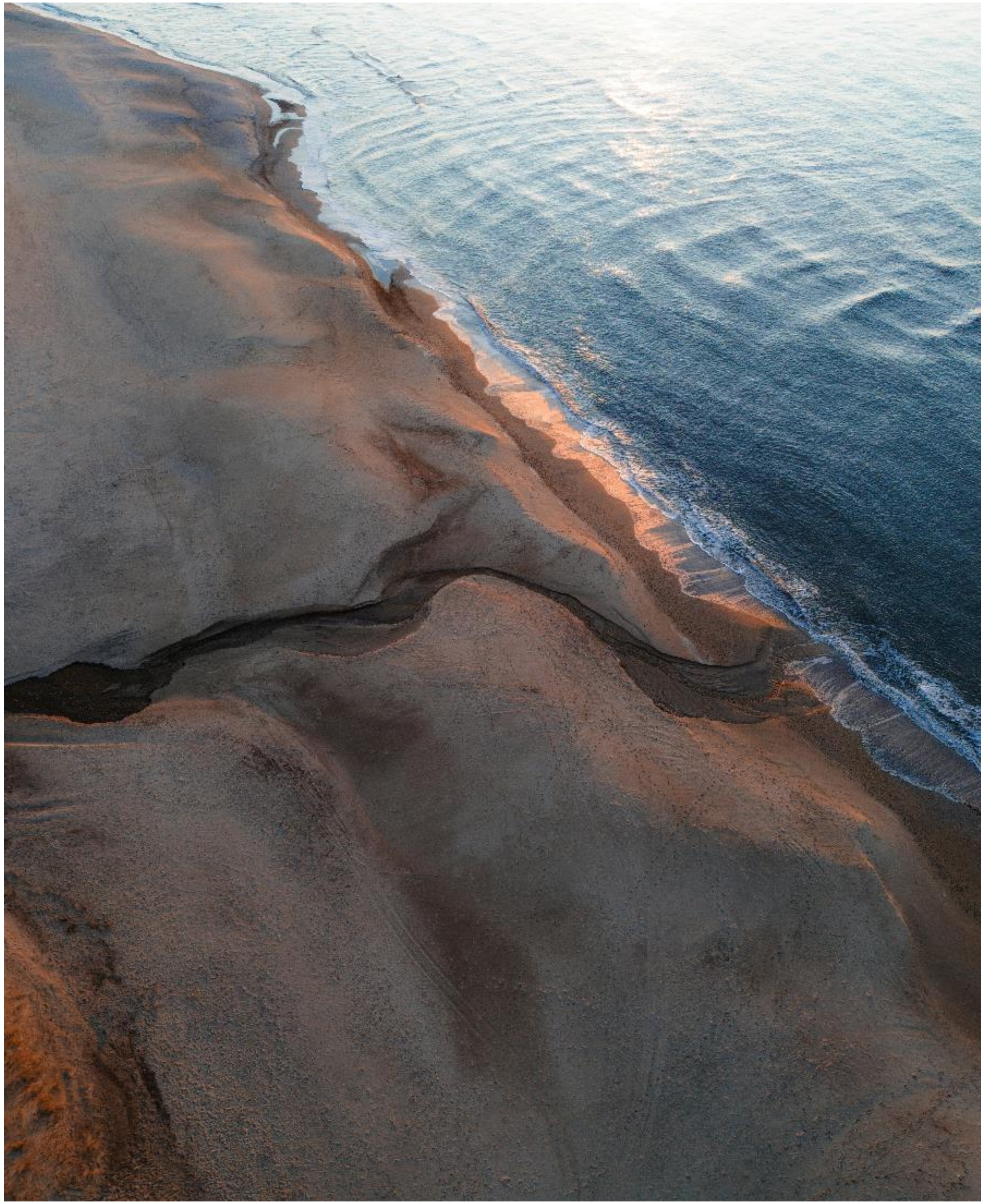
- 30% income tax relief on investments up to £1 million per tax year (or £2 million if at least £1 million is in knowledge-intensive companies)
- Capital Gains Tax deferral for gains reinvested into EIS
- Tax-free growth, and
- After holding the investment for three years, potential full inheritance tax exemption due to Business Relief

Venture Capital Trusts (VCTs)

- 30% income tax relief on investments up to £200,000 per year
- Tax-free dividends
- Tax-free growth, although no CGT deferral or IHT relief

Recruitment and Retention
Corporate benefits

- Group Pension
- Death in Service
- Group Critical illness Cover
- Group Income Protection
- Private Medical Insurance
- Health Cash Plans
- Flexible Benefits Platforms
- Employee Assistance Programmes (EAPs)
- Share Schemes & Long-term Incentive Plans



Lead up to Retirement

Phil Brook, Independent Financial Advisor

Building the Retirement Plan

3 key areas

1. Business Exit or Succession
2. Structuring Income for Retirement
3. Estate and Legacy Planning

Decumulation

Phil Brook, Independent Financial Advisor

Key Risks

Sequence Risk
Poor market returns early in retirement can significantly erode a portfolio's long-term viability

Longevity Risk
Clients may live far longer than expected—potentially into their late 90s or beyond

Inflation Risk
Over 20–30 years, even modest inflation can halve purchasing power

Cognitive Decline
Later-life decision-making can be impaired, so automation and simplification are key.

Reconsider Pension IHT Strategies

What We Know

- New rules apply to defined contribution and defined benefit pensions
- Pension providers to pay IHT on pensions direct to HMRC
- Spousal exemptions remain
- Income tax treatment of pensions unchanged
- 25% lump sum remains tax free
- RNRB and pensions

What We Don't Know

- IHT on Business Relief assets held in a pension

What Is Yet To Come

- Pension Consultation 2025

IHT Planning
Consider:

- Increasing expenditure in retirement
- Insuring against the liability
- Outright gifts
- Gifts into trusts
- Company structure and qualification for BR
- Will structure
- Pension nominations
- Tax efficient investments

Inheritance Tax

James Kipping, Partner

Autumn Budget 2024 Changes

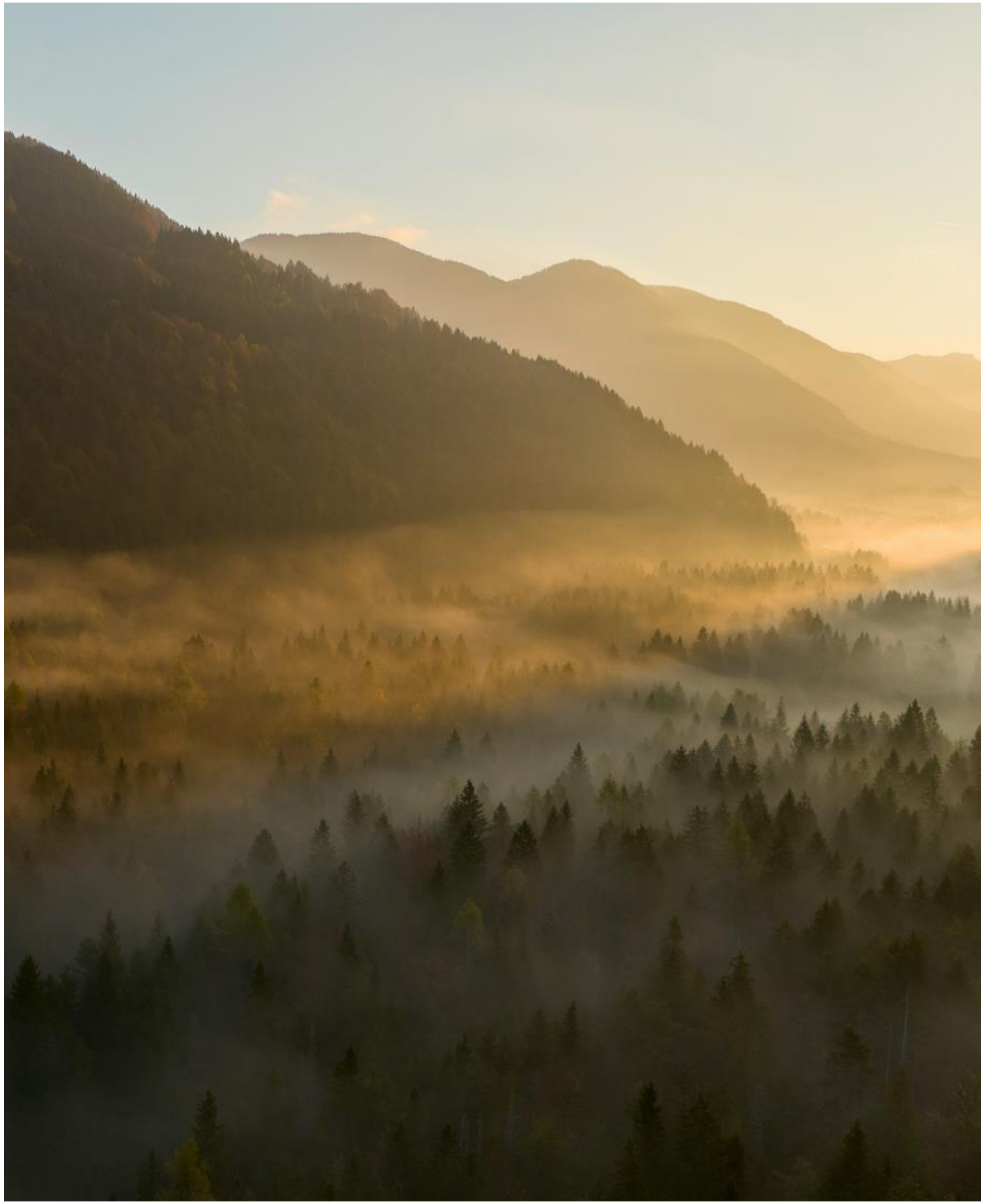
- From 6 April 2026: APR and BPR limited to £1m per individual at 100%; thereafter on values above £1m, relief is limited to 50%.
- 50% relief only for AIM shares.
- Further freezing of NRB from 2009/10 to 2030 although most married couples / civil partners will be exempt up to £1m.

But…

- There was no change to the 7-year PET regime or normal expenditure out of income exemption.
- Interest free instalment relief for IHT on qualifying businesses and farms is retained.
- Investment property is still protected by BPR provided unquoted business is mainly trading.
- No CGT on death.
- No CGT charge on emigration.

BPR/APR: the £1m Allowance
Transfer prior to 30 October 2024

- Transfers prior to 30 October 2024 have banked 100% relief without limit and those gifts are not counted when cumulating the amount of £1m allowance available for gifts made after April 2026.
- Multiple trusts made by the same settlor before 30 October 2024 have a £1m allowance each and broadly no tax on business property until the next ten-year anniversary occurring after 5 April 2026.
- Therefore, shares contributed before 30 October 2024 into trust can be distributed tax free before the next 10-year anniversary and do not reduce the £1m allowance at the next anniversary.



BPR/APR: the £1m Allowance

Transfers between 30 Oct 2024 and 6 April 2026

1

No tax on death – unlimited relief so do not leave all to spouse.

2

No tax on lifetime gifts if donor survives seven years or dies before April 2026.

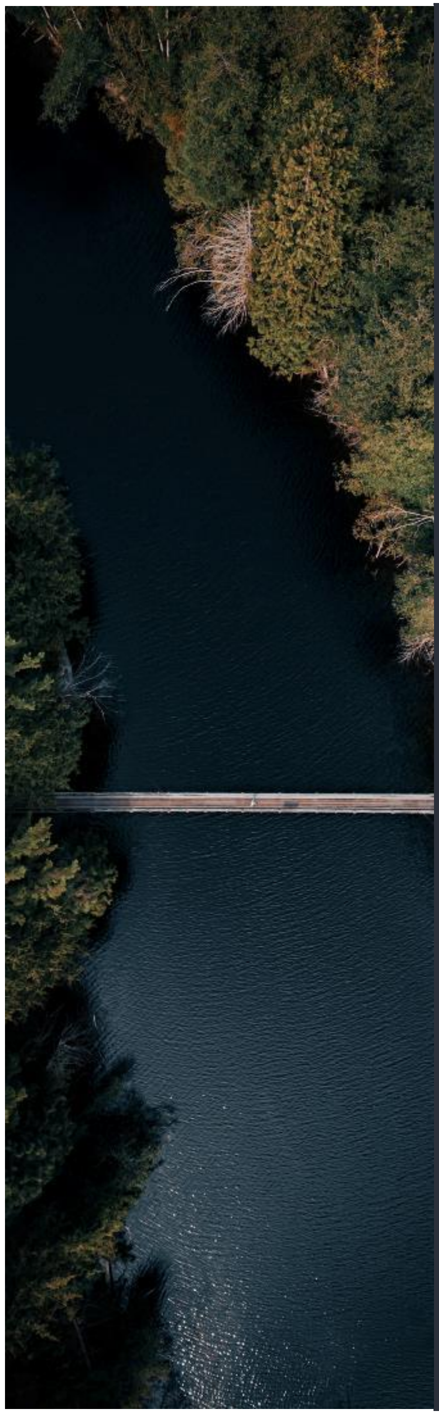
3

Trusts of one settlor will only have one £1m allowance between them. No exit charge before April 2026 and such distributions do not reduce the £1m allowance.

BPR/APR: the £1m Allowance

Transfer from 6 April 2026

- The £1m allowance will refresh for an individual every seven years.
- Therefore, an individual can give £1m into trust tax free every seven years (or £1.325m if unused NRB).
- The £1m allowance is not transferable to spouse on death so consider equalisation of property prior to death to give the done spouse a two-year ownership period.



- New trusts (post 30 Oct 2024) of one settlor will have only one £1m allowance between them.
- The allowance will be allocated in chronological order with priority given to the first trust then each successive trust until £1m used up. Technical document says: "the allocation will apply for the lifetime of the trust".
- What if Trust 1 sells business/Agri property? Or later acquires business/Agri property?
- For pre-existing trusts that contained business/Agri property on 29 October 2024 each trust benefits from £1m allowance even if settlor adds further property to each of these trusts.

BPR/APR

What should we be doing?

- There is some incentive to settle into trusts before 6 April 2026. Full relief from entry charge but donor must survive seven years or die before April 2026.
- In the case of death before April 2026 – do not leave all to spouse but leave on discretionary trust.
- Preserve pre-30 October 2024 trusts as each has £1m allowance but possibly distribute property before the next ten-year anniversary as no exit charges and does not use up £1m allowance.
- Review wills to ensure the £2m allowance is maximised between spouses/civil partners.
- Make lifetime gifts of APR/BPR to children every seven years even after 2026 as the £1m allowance is refreshed.

Family Investment Companies

- Firstly, this is not a complete overview of FICs. Bespoke planning is required in each case.
- Nevertheless, a FIC can create a vehicle which enables one generation to pass on wealth to the next in a controlled manner.
- Capital is protected in a number of ways:
  - Capital is controlled by the directors,
  - Capital is not easily extracted, and
  - The constitution of a FIC can help protect against the impact of divorce by encouraging the use of marital agreements and by controlling the ownership of shares.

FICs: Inheritance Tax

The inheritance tax benefits come from key sources:

- The reduction of the estate for the founders of the FIC.
  - Shares or cash to be used for subscription of shares is often gifted to children / grandchildren.
  - Sometimes cash is also gifted to a family trust, which will then subscribe for shares.
- To the extent shares are held by family members and not the founders, the profits will be outside the founders' estate.
- Share valuation discounts.
- A FIC is not within the relevant property regime so is not subject to 10-year anniversary charges of 6% like a trust would be, or the exit charges.

FICs: Funding

- Share capital or debt.
- On formation, cash is generally used to provide the FIC with at least its initial funding.
- Funding by loans is attractive. However, careful consideration is needed of the possible tax implications:
    a. Interest free and repayable on demand to prevent a transfer of value for IHT.
    b. If a loan is to be assigned, you will need to consider the value of the loan. Recipients base cost may be less than the face value, creating CGT charges on subsequent repayments.
    c. Charging a commercial rate of interest makes the arrangements look more commercial and has the benefit of avoiding possible challenges under:
        i. Settlements legislation
        ii. Transactions in securities rules

FICs: Share Rights

Careful consideration must be given to:

Voting Right

Value can be attributed to control. Simplicity is often best. If control of a FIC is managed through the rights given to directors, the right to vote attaching to shares becomes less important.

Income Rights

a. Preference shares
b. Using alphabet shares – but watch for GWR

Capital Rights

Any Questions?

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