

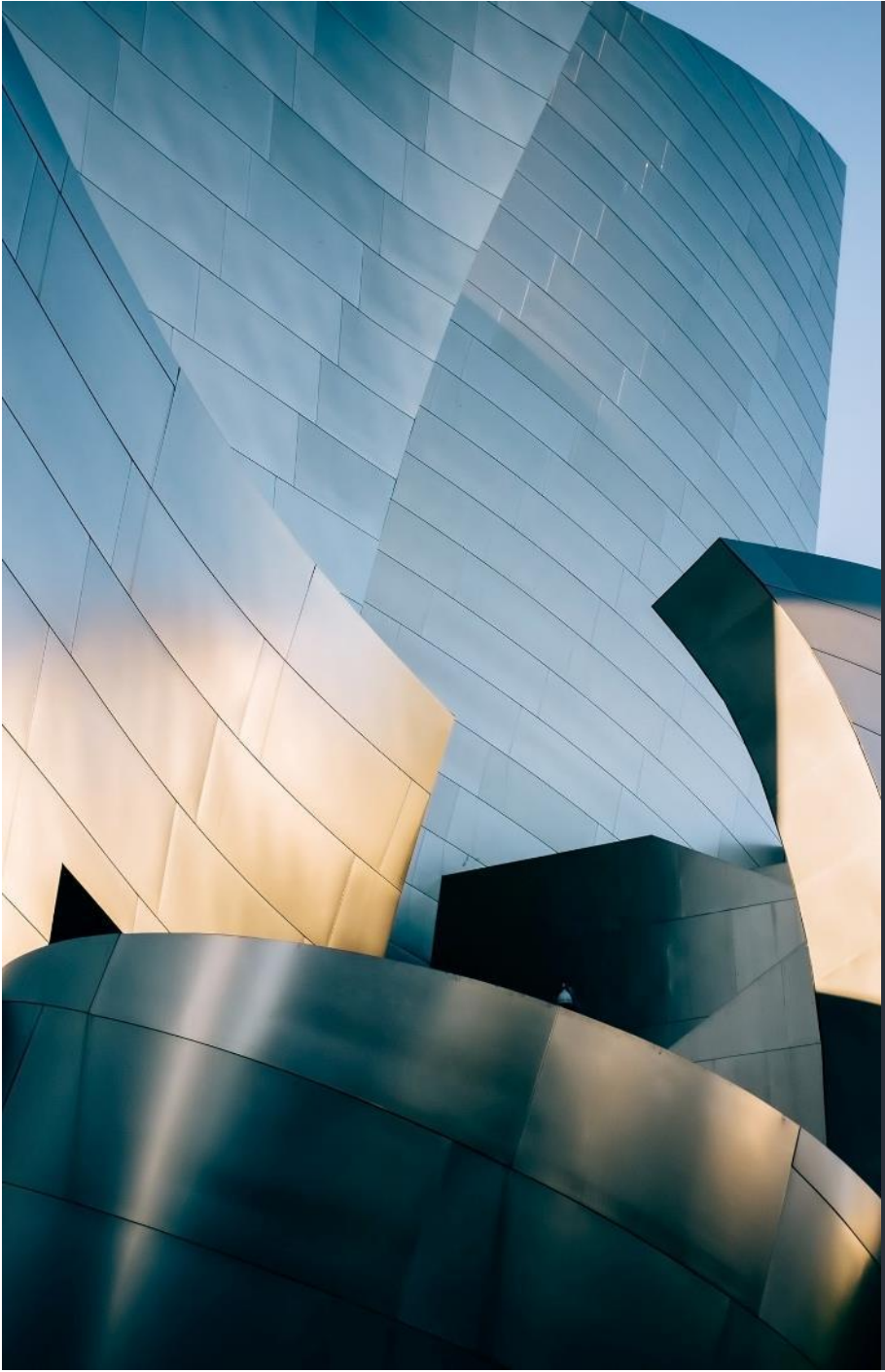


Tax Efficiency for SMEs Post Finance Act 2025

James Kipping & Martyn Gordon

ICAEW PFP Conference | 10 October 2025

Now, for tomorrow



**We'll
cover...**

- Basic tax efficient structuring
- IHT changes
- Options for planning

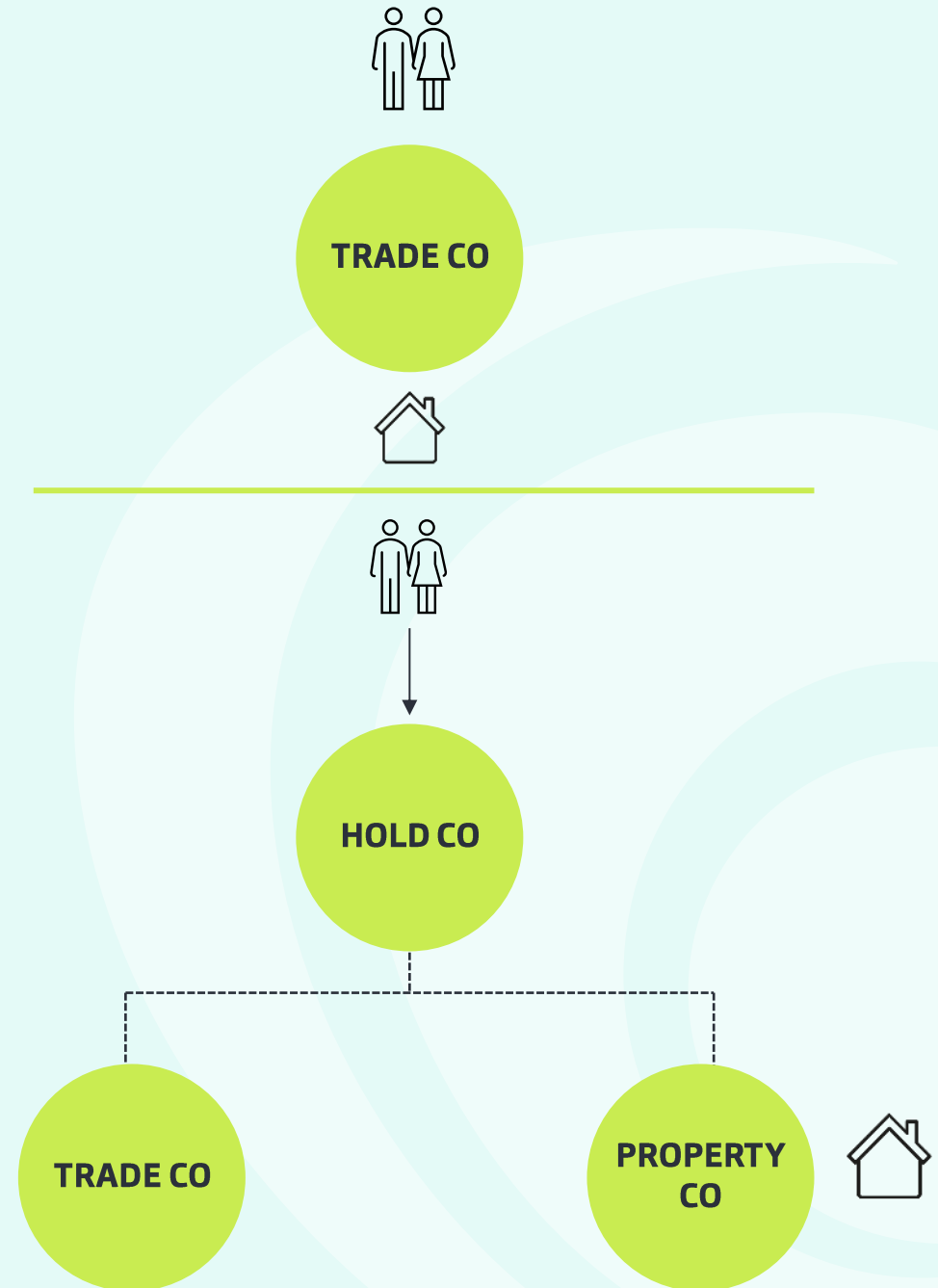
Efficient group structuring

Key considerations

- Asset protection
- Availability of Substantial Shareholding Exemption (SSE)
- Ability to gift shares in a trading company
- Retirement income
- Preparation for succession or sale
- Entitlement to Business Property Relief (BPR)

Tax Efficient Restructuring

- Inserting a holding company
- Hiving off trade or assets



Direction of travel



'Nature gives man no power over his earthly goods beyond the term of his life. What power he possess to prolong his will after his death – the right of a dead hand to dispose of property – is a pure creation of the law, and the state has the right to prescribe the conditions and limitations under which that power shall be exercised.'

Sir William Harcourt (Chancellor of the Exchequer) in 1894 on the introduction of estate duties.



Inheritance tax is not popular, but George Osborne's 2015 reform was not only unjust in deepening wealth inequality and the North-South divide, but it left untouched the loopholes through which the 'healthy, wealthy and well-advised' can avoid paying tax. It needs to be either reset or shifted wholesale to a tax on the receipt of any gifts throughout a lifetime, making tax on all gifts equal and thus avoidance more difficult.'

Rachel Reeves MP, 2018

Changes announced on 30 October 2024

1

Capital Gains Tax

- From 6 April 2025 the rate increased to 24%
- The rate of CGT that applies to business asset disposal relief (BADR):
 - Increased to 14% from April 2025
 - Increases to 18% from April 2026

2

IHT Rate and Thresholds

- IHT is charged at 40% on the value of a deceased person's assets above a threshold of £325,000. If residence nil rate band applies an additional £175,000 is IHT free
- No changes to headline rate
- Nil rate band (and residence nil rate band) previously frozen to 5 April 2028. Freeze extended to 5 April 2030

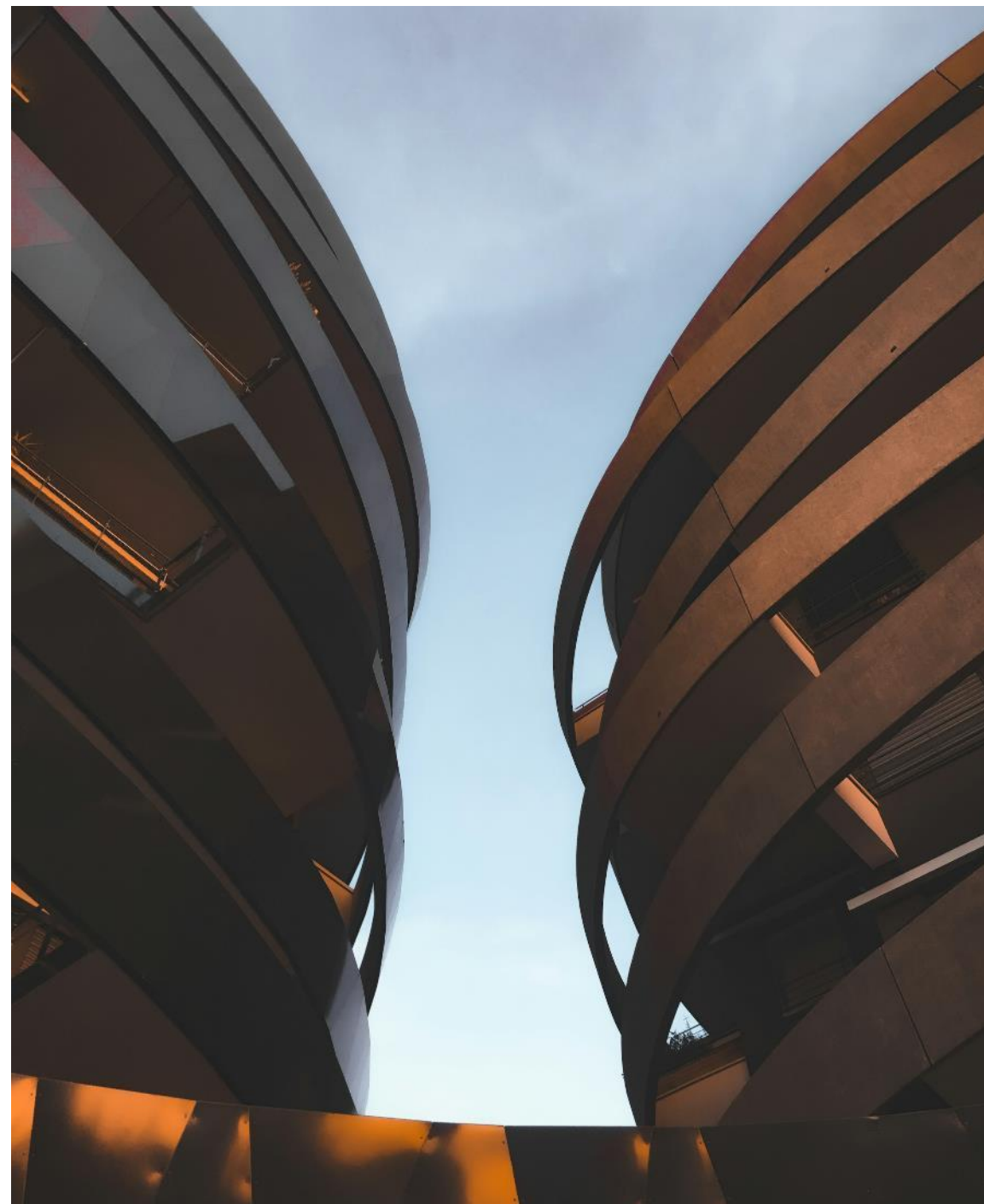
3

IHT Reliefs

- Changes announced to Business Property Relief ('BPR') and Agricultural Property Relief ('APR')
- Combined £1 million allowance to apply from April 2026 (previously no limit)
- No spousal transfer of unused BPR or APR
- Excess to attract 50% relief
- BPR on AIM listed shares to reduce from 100% to 50% from April 2026

Who is likely to be affected?

- Owner managed businesses (OMB) planning for exit or succession
- Farmers and agricultural property owners planning for exit or succession
- Those with business assets in trust
- AIM shareholders



Joined Up Approach

Tax Advice

Finding the optimal solution, cognoscente wider commercial and personal priorities

Financial planning

Many of the options we will outline require careful financial planning best approached with a Wealth Management Consultant

- Conversations about funding life and retirement
- Insuring potential IHT liabilities

Valuation

For options involving the transfer of shares supportable valuation is key and may require specialist input.

Legal

Some planning may require legal drafting and advice

- Amending wills
- Amending company articles
- Marital agreements
- Drafting Trust Deeds

Base Scenario

- Incorporated business
- 100% owned by one spouse (Spouse 1)
- Married with children over 18
- No immediate plans to sell
- Current will leaves everything to spouse on first death then children thereafter
- Assumed Nil Rate Band (NRB) and Residential NRB (RNRB) are utilised on non-business assets



Option 1: Do nothing 'wait and see'



The rules aren't final yet
and could change again,
can I just wait and see
what happens?

Key considerations:

- For businesses with value > £1m some planning is likely to be beneficial
- Extra 20% IHT charge levied on value > £1m
- At the minimum we would recommend considering insurance for additional IHT to provide time to plan

Valuation of Business	£1m	£2m	£5m	£10m
IHT on first death	£nil	£nil	£nil	£nil
	Inter-spousal exemption	Inter-spousal exemption	Inter-spousal exemption	Inter-spousal exemption
IHT on Second death (post April 2026)	£nil	£200k	£800k	£1.8m
	Covered by £1m BPR	First £1m covered by BPR	First £1m covered by BPR	First £1m covered by BPR
		Rest @ 20%	Rest @ 20%	Rest @ 20%

Option 2: Retain current shareholding but amend will for first death



Should I change my will to
leave some shares to my
children/into trust?

Key considerations:

- Amending the will of Spouse 1 to leave shares valued up to the sum of available allowances (potentially £1.65m) to children(trust) on death, with remainder to Spouse 2 could save up to £200k in IHT whilst retaining the same ownership structure now
- Valuation is key to achieving £nil IHT on first death
- Relies on spouses dying in the 'correct' order
- Requires broader consideration of the will to anticipate changes in circumstance (marriage, divorce, grandchildren, shares leaving the bloodline etc)

Valuation of Business	£2m	£5m	£10m
IHT on first death	£nil	£nil	£nil
	£1m transfer to children/trust covered by Spouse 1 BPR	£1m transfer to children/trust covered by Spouse 1 BPR	£1m transfer to children/trust covered by Spouse 1 BPR
	Inter-spousal exemption on remainder	Inter-spousal exemption on remainder	Inter-spousal exemption on remainder
IHT on Second death	£nil	£600k	£1.6m
	£1m covered by Spouse 2 BPR	£1m covered by Spouse 2 BPR	£1m covered by Spouse 2 BPR
		Rest @ 20%	Rest @ 20%

Option 3: Transfer £1m of value to Spouse 2 during lifetime and amend wills per Option 2



Should I give some shares
to my spouse now?

Key considerations:

- No tax on inter-spousal transfer
- Likely saving of up to £200k IHT as both spouses could access BPR limit
- Consider impact on control of the company
- Consider broader commercial and family implications
- Valuation of shares will be key to achieving the saving

Valuation of Business	£2m	£5m	£10m
Transfer during lifetime	Covered by inter-spousal exemption	Covered by inter-spousal exemption	Covered by inter-spousal exemption
IHT on first death	£nil £1m transfer to children/trust covered by Spouse 1 BPR Inter-spousal exemption on remainder	£nil £1m transfer to children/trust covered by Spouse 1 BPR Inter-spousal exemption on remainder	£nil £1m transfer to children/trust covered by Spouse 1 BPR Inter-spousal exemption on remainder
IHT on Second death	£nil £1m covered by Spouse 2 BPR	£600k £1m covered by Spouse 2 BPR Rest @ 20%	£1.6m £1m covered by Spouse 2 BPR Rest @ 20%

Option 4: Restructure the company ownership through lifetime gifts of shares



Should I give some shares
to my Spouse and
Children now?

Key considerations:

- Transfer £1m to Spouse 2 and £1m to children. Amend wills to leave £1m to children/(trust) on death if BPR is available (e.g. if PET succeeds i.e. survived > 7years)
- No immediate tax if Holdover Relief (S165) applies ...any restriction?
- Reduction of Spouse 1's estate
- Lifetime transfer requires broader consideration of commercial and family circumstances
- Valuation of transfer's is key, and Minority Interest discounts must now be considered
- Shares gifted in lifetime will not benefit from rebasing for CGT (24%)

Valuation of Business	£5m	£10m
Transfer to spouse during lifetime	Covered by inter-spousal exemption	Covered by inter-spousal exemption
Transfer £1m to children during lifetime	PET No IHT if die pre April 2026 (unlimited BPR) or survive 7 Years BPR available to cover if PET fails	PET No IHT if die pre April 2026 (unlimited BPR) or survive 7 Years BPR available to cover if PET fails
IHT on first death (assuming PET succeeds)	£nil £1m transfer to children / (trust) covered by Spouse 1 BPR Inter-spousal exemption on remainder	£nil £1m transfer to children/ (trust) covered by Spouse 1 BPR Inter-spousal exemption on remainder
IHT on Second death (assuming PET succeeds)	£400k £1m covered by Spouse 2 BPR Rest @ 20%	£1.4m £1m covered by Spouse 2 BPR Rest @ 20%

Option 5: Gift shares into trust before April 2026

Key Considerations:

Gift shares into trust before April 2026 to take advantage of large savings available from unlimited BPR (also transferring shares to spouse per Option 3)

- Reduction of Spouse 1's estate
- Spouse 1 can retain control through Trusteeship of the trust
- Gains on any gifts to trust can be held over i.e. no restriction under S260 TCGA 1992 unlike S165 TCGA 1992
- Valuation of transfer's is key, and Minority Interest discounts must be considered
- Commercial and administrative considerations to think about with a new trust including 10-year charges



Is there anything I can do before the rules change to get more than £1m of BPR and retain control?

Steps	Tax consequences
Transfer to spouse during lifetime	Covered by inter-spousal exemption
Transfer to trust pre April 2026	CLT IHT covered by BPR If die post April 2026, within 7 years of transfer and value > £1m taxed under new regime.
IHT on first death (assuming settlor survives 7 years)	£nil £1m transfer to children/(trust) covered by Spouse 1 BPR Inter-spousal exemption on remainder
IHT on Second death	£1m covered by Spouse 2 BPR Rest @ 20%
Ten-year charges	Ongoing tax charges at max 6%.

Trust Taxation

Settling assets into trust (entry charges)

- An entry charge of 20% applies to the value of gifts above the nil rate band (NRB - currently £325k) and not covered by reliefs such as BPR/APR

Income and gains in trust

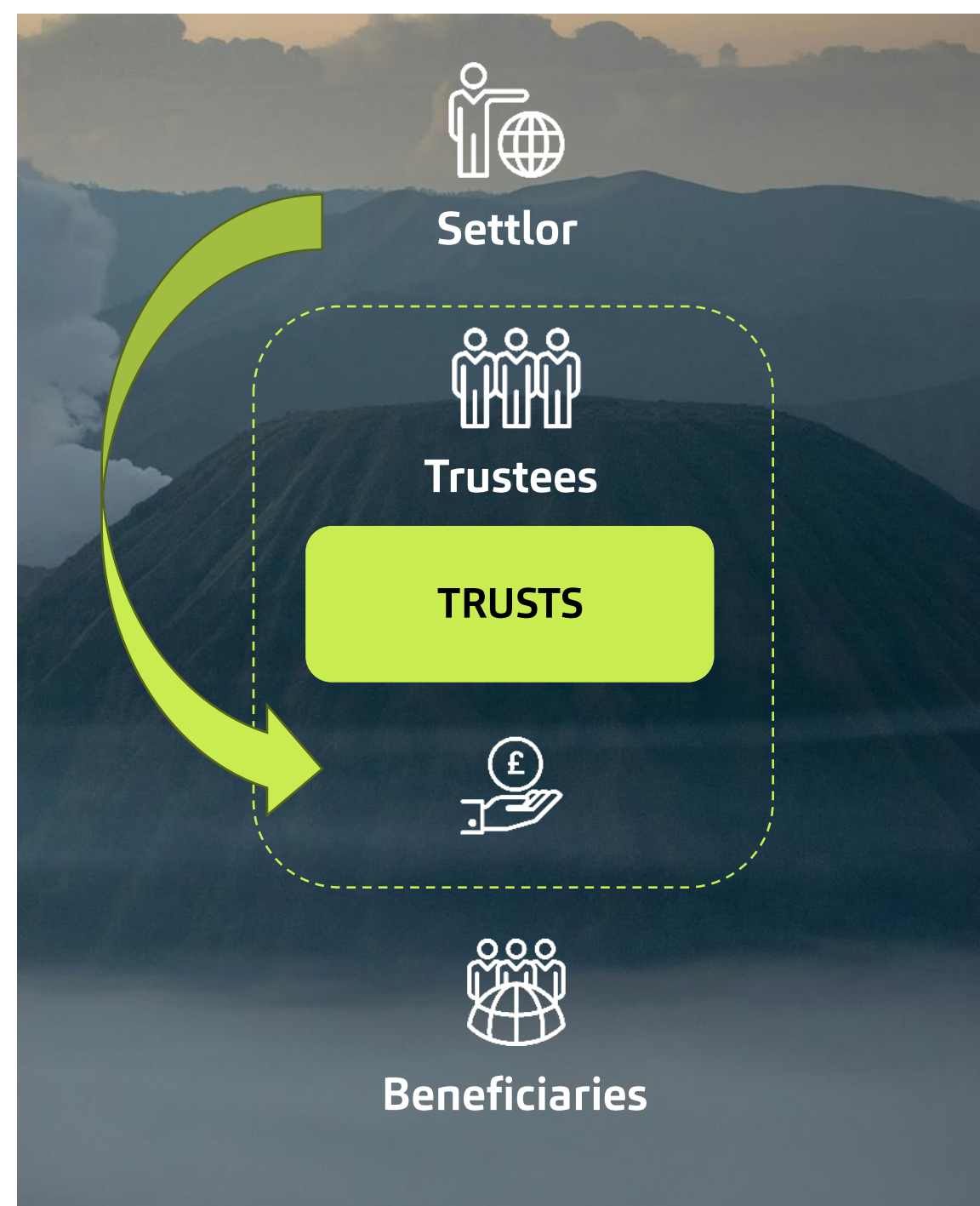
- Income tax paid by trustees on the Rate Applicable to Trusts (RAT)
- 45% on savings and non-savings
- 39.35% on dividends
- CGT payable at the higher rate 24%

Principle (10-year anniversary) charges

- Arising on each 10-year anniversary of the creation of the trust the principal charge is levied on the value of the trust at a maximum rate of 6% with relief given for APR/BPR and the NRB

Exit charges

- An exit charge arises when capital is distributed to beneficiaries and is charged at a maximum rate of 5.85% on the value of distributions exceeding the NRB and not relieved by APR/BPR





TRUSTS: The state of play

Trusts created pre 30 October 2024

- For 10-year charges occurring the £1million allowance will apply to complete quarters after 6 April 2026
- If property was settled into trust by 29 October 2024 each trust will have its own £1million 100% rate of relief on combined business and agricultural property. Can add further business property

Trusts created 1 November 2024 – 5 April 2026

- 100% rate of relief available on transfers before 6 April 2026
- If the settlor dies within 7 years, relief capped at 100% on £1million combined agricultural and business property with 50% thereafter
- Post April 2026 £1million on a 7 year rolling basis
- For trustees £1million combined agricultural and business property relief at 100% on 10-year anniversary and exit charges (refreshing for each 10-year charge but not if used against an exit charge)
- £1million apportioned across trusts created by the same settlor (chronologically)

Trusts created from 6 April 2026

- 100% rate of relief available for the first £1million of combined business and agricultural property transferred into trust, 50% thereafter
- £1million refreshes every 7 years if the PET succeeds
- For trustees £1million combined agricultural and business property relief at 100% on 10-year anniversary and exit charges (refreshing for each 10-year charge but not if used against an exit charge)
- £1million apportioned across trusts created by the same settlor (chronologically)

Assets already in trust?

Key Questions:

Do you still need the trust?

- Are children grown up / have they succeeded into the business?
- Distributions of property settled pre 30 October 2024 are only restricted to £1m after the next 10-year charge
- Distribution of shares to beneficiaries pre-6 April 2026 incurs no immediate liability

How many trusts do you have?

- Multiple trusts may benefit from multiple £1m allowances, are these all utilised?

When is your next 10-year anniversary?

- Quantify the potential charge and consider funding options



**I have > £1m of
assets in trusts set up
pre 30/10/2024, what
should I do?**

Family Investment Companies (FIC)

An alternative to trusts?

Features of a FIC:

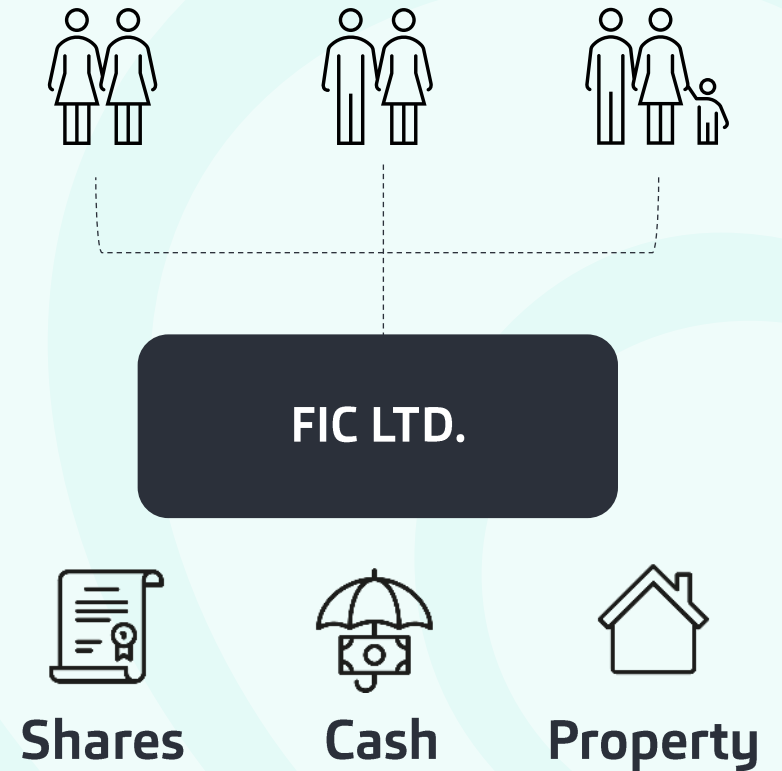
- A company established to meet the needs of a single family
- Bespoke Articles of Association governing decision making and control
- No special company law or tax status

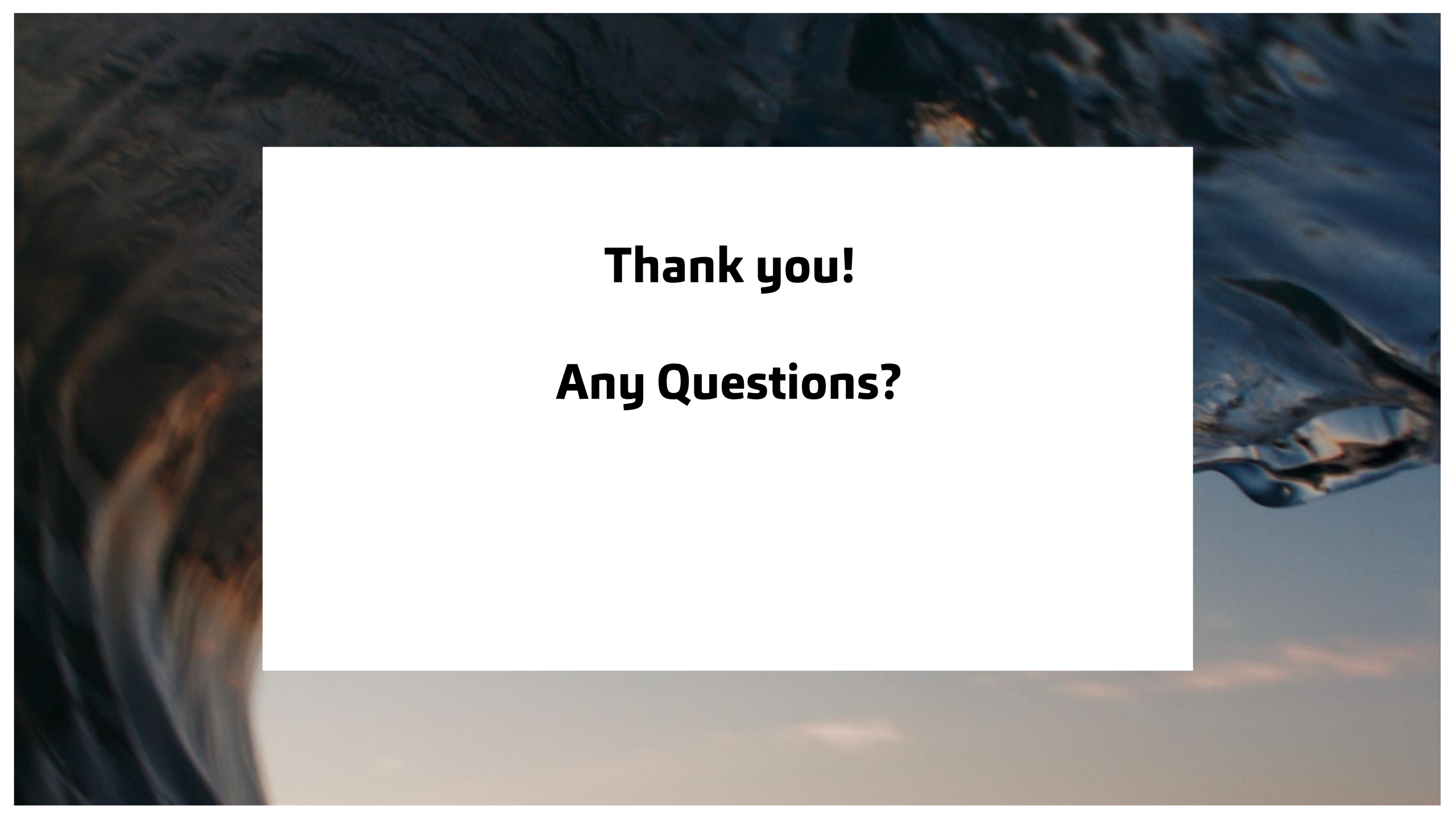
Uses and benefits

- Encourage participation in wealth management by younger generations
- Provide a governance structure for family assets (record keeping, ownership, participation etc)
- Move assets out of the estate of founders and older family members to reduce IHT exposure

Privacy

- Limited companies are required to file accounts
- Public registration of people with significant control (PSC)



The background of the slide features a close-up of water ripples on the left and right sides, with a soft, hazy sunset or sunrise sky in shades of orange and blue at the bottom.

Thank you!

Any Questions?

Disclaimer & copyright

MHA is the trading name of both (i) MHA Audit Services LLP, a limited liability partnership registered in England and Wales with company number OC455542 and (ii) MHA Advisory Ltd, a company registered in England and Wales with company number 16233746. A list of partners' names is open for inspection at MHA's registered office at The Pinnacle, 150 Midsummer Boulevard, Milton Keynes, MK9 1LZ. MHA is an independent member of Baker Tilly International Limited, the members of which are separate and independent legal entities. Arrandco Investments Limited is the registered owner of the UK trademark for the name Baker Tilly. The associated logo is used under licence from Baker Tilly International Limited Further information can be found via our website www.mha.co.uk/terms-and-conditions.

You shall not copy, make available, retransmit, reproduce, sell, disseminate, licence, distribute, publish, broadcast or otherwise circulate either within your business or for public or commercial purposes any of (or any part of) these seminar materials provided by MHA in any format whatsoever unless you have obtained prior written consent from MHA to do so. To the maximum extent permitted by applicable law MHA excludes all representations, warranties and conditions (including, without limitation, the conditions implied by law) in respect of these seminar materials.

These seminar materials are designed solely for the benefit of those attending the MHA seminar. The content of these seminar materials does not constitute advice and MHA endeavours to ensure that the materials are correct. All information provided herein or at any seminar is believed to be accurate and correct at the time of publication or broadcast. While all due care has been taken with this publication, no responsibility or liability is accepted for any inaccuracies, errors or omissions. Neither this publication or any broadcast should be accepted as providing a complete explanation or advice in respect of its subject matter and no liability is accepted for the consequences of any reliance upon it in part or whole. The seminar materials, although carefully prepared, have been written in general terms and should be seen as containing broad statements only. You should not act, or refrain from acting, upon the information contained in these seminar materials without obtaining specific professional advice. Please contact MHA to discuss these matters in the context of your particular circumstances.

MHA's liability is limited to the maximum extent permitted under applicable law. MHA (or any of its partners, employees or agents) will not be liable for any direct, indirect or consequential loss or damage arising in connection with these materials, whether arising in tort, contract, or otherwise, including, without limitation, any loss of profit, contracts, business, goodwill, data, income or revenue. MHA does not accept or assume a duty of care in respect of any use or reliance on these seminar materials and will deny any liability for any loss arising from any action taken or not taken or decision made by anyone in reliance on these seminar materials.

© copyright 2025. All rights reserved.

mha.co.uk



MHA is the trading name of both (i) MHA Audit Services LLP, a limited liability partnership registered in England and Wales with company number OC455542 and (ii) MHA Advisory Ltd, a company registered in England and Wales with company number 16233746. A list of partners' names is open for inspection at MHA's registered office at The Pinnacle, 150 Midsummer Boulevard, Milton Keynes, MK9 1LZ. MHA is an independent member of Baker Tilly International Limited, the members of which are separate and independent legal entities. Arrandco Investments Limited is the registered owner of the UK trademark for the name Baker Tilly. The associated logo is used under licence from Baker Tilly International Limited. Further information can be found via our website www.mha.co.uk/terms-and-conditions.

Now, for tomorrow

INVESTORS IN PEOPLE®
We invest in people Gold