



Clients looking to tax efficiently reinstate lost RNRB and maximise inheritance tax allowances

Business Relief and trusts can help clients regain the RNRB and maximise new inheritance tax allowances. This scenario shows how advisers can use Business Relief investments and trusts to help clients pass on more wealth efficiently.

About this scenario

We created this tax planning scenario to help advisers develop suitable planning strategies for clients. It does not provide advice on investments, taxation, legal matters, or anything else. As you know, tax-efficient investments aren't suitable for everyone. Any recommendation should be based on a holistic review of a client's financial situation, objectives and needs. Before recommending an investment, you should also consider the impact of charges related to the product, such as initial fee, ongoing fees, and annual management charges.

Meet Diane, who wants to maximise her IHT allowances

Diane is in her early seventies, widowed with an estate valued at £3 million, mainly in listed shares, pensions and property. She is concerned about the pension changes taking effect on 6 April 2027, as pensions will become subject to IHT, reducing the amount that can be passed on to her loved ones.

Due to the size of her estate, the residence nil rate band (RNRB) taper restrictions apply, meaning she has lost her RNRB allowance and the RNRB she received from her late husband. She wants to regain some or all of this allowance and maximise other inheritance tax (IHT) allowances available to her. She still wants to retain some level of control over how and when assets are passed on to her children and grandchildren.

An estate planning solution

Diane's adviser explains from 6 April 2026, there is a new IHT allowance, a £2.5 million "unquoted Business Relief Allowance" which applies to unquoted Business Relief (BR) investments (private company shares, partnership interests and sole traders), and agricultural property. Amounts within this allowance attract 100% relief from IHT and amounts above this allowance will attract relief at 50%.

Her adviser assesses her needs, objectives and appetite for risk and recommends redirecting £1 million worth of her assets into an unquoted BR portfolio, such as the Octopus Inheritance Tax Service (OITS). This combined with trust planning, can achieve her objectives of maximising her IHT allowances:

- **Maximise BR unquoted allowances:** He explains that the unquoted BR allowance is reset every seven years, which gives her the opportunity for more BR planning with 100% IHT relief.



- **Frees up the NRB and RNRB:** Importantly, BR qualifying assets do not use up other IHT allowances like the NRB or the RNRB, unlike other assets.
- **Tax efficiently regaining the RNRB with a BR gift into trust:** A gift of a BR qualifying investment held for two years, can help to regain some or all of lost RNRB while providing relief from chargeable lifetime transfer (CLT) IHT charges. Any capital gain on the gift could also be deferred.

After discussing her options with her adviser, Diane invests £1 million into the unquoted BR portfolio. She has sufficient income and assets for her retirement.

After holding the unquoted BR investment for two years, she gifts it into a discretionary trust set up for her family's future benefit. The trust structure also allows Diane to retain control over future distributions and tailor the arrangement to her wishes. The gift into trust should not give rise to a CLT and she has now regained her RNRB in full. Additionally, the trust now also has a £2.5 million BR unquoted allowance to use against trust exit or periodic charges.

Unique BR benefits for death within seven years or after seven years of the gift

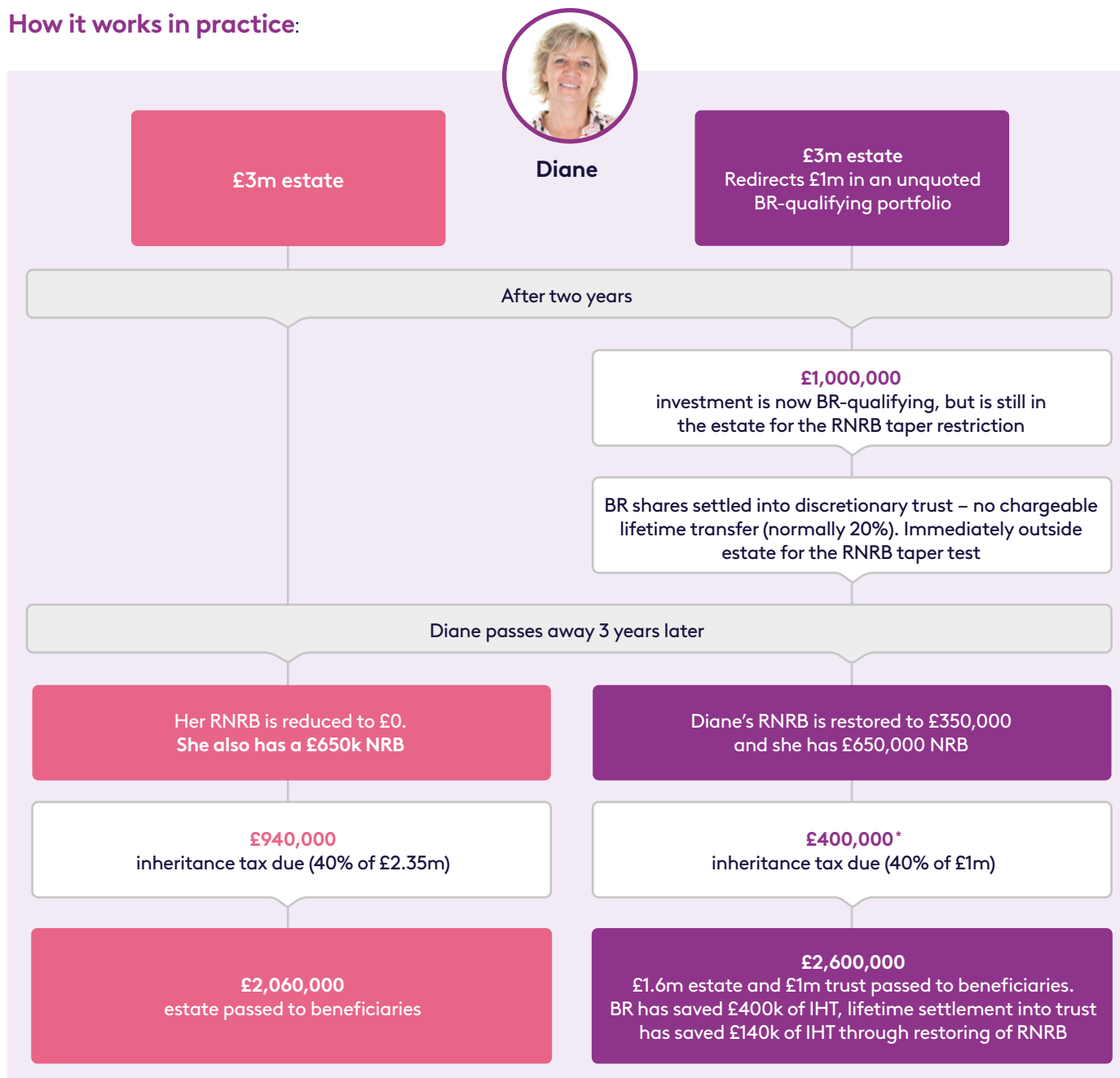
If Diane were to die within seven years of making the gift, provided the trust is still holding the asset at her death, no further IHT should be due by her estate, unlike non-BR gifts which require seven years to be free from IHT.

Compared to a similar strategy using a non-BR qualifying assets, the IHT outcome would be significantly higher.

If she survives more than seven years after making the gift, the BR allowance resets. No IHT should be due, and this allows a further BR investment, which would qualify for 100% relief after two years.

Business Relief stands out as a flexible tool that can be used alone or alongside other estate planning strategies, like trusts, to maximise IHT allowances and pass more wealth to loved ones.

How it works in practice:



*Provided the trust retains the investment until Diane's death.

Notes and assumptions:

- Tax rates and allowances are correct for the tax year 6 April 2025 to 5 April 2026.
- From 6 April 2026, a £2.5 million Individual BR Allowance will be introduced that applies to investments in qualifying assets, unquoted investments (private companies, partnership interests and sole traders) and agricultural property. Amounts up to that allowance are free from inheritance tax. Qualifying investments above this allowance attract relief at 50%.

Until 6 April 2026, BR continues to be available at 100% IHT relief on all qualifying investments to an unlimited value.

- For ease of comparison, we've assumed no gains or losses on the assets referenced, and no product fees or charges paid for financial advice have been included which may apply.

About Octopus

Octopus Investments was founded in 2000 with the aim of being a financial services company that puts its customers first.

From the very beginning, Octopus has invested in people, ideas, and industries that aim to change the world and unlock a brighter tomorrow. The company has built expertise in sectors that make a real difference in financial planning, such as renewable energy, smaller companies, and healthcare.

Certified



Corporation

Octopus is proud to be a **Certified B Corporation™**, meaning its social and environmental performance, accountability and transparency have been assessed and certified. Octopus believes there is no trade-off between 'doing good' and making money, and that business can pursue purpose as well as profit.



If you'd like to discuss how these planning scenarios apply to your clients, or to find out more about how Octopus can support you, call our Business Development Managers on **0800 316 2067**, email support@octopusinvestments.com or visit octopusinvestments.com.



For information on our other scenarios, please visit: octopusinvestments.com.



An important reminder about risks

- BR-qualifying investments are high-risk. The value of an investment, and any income from it, can fall as well as rise. Investors may not get back the full amount they invest.
- Tax treatment depends on individual circumstances and tax rules could change in the future.
- Tax relief depends on portfolio companies maintaining their qualifying status.
- The shares of unquoted companies could fall or rise in value more than shares listed on the main market of the London Stock Exchange.