

Factsheet

Business sale: Financial planning essentials

Part 1: The big picture: Turning sale into strategy

Selling your business is often the culmination of years of hard work and dedication, and can be a final capital event when the opportunity presents itself. However, without careful planning, it can quickly become an overwhelming task as a significant portion of that hard-earned value could be lost to tax if not handled carefully.

That's because a business sale transforms what is often a highly tax-efficient asset into personal wealth that sits fully within your estate. This shift creates exposure to Capital Gains Tax (CGT) on sale and potentially Inheritance Tax (IHT) thereafter. Understanding how and when these taxes apply is key to protecting your wealth.

With the right strategy in place, it is possible to significantly reduce both your immediate tax liability and the longer-term tax burden on your beneficiaries.

Key takeaways:

- Understand how early planning can reduce Capital Gains Tax (CGT) and Inheritance Tax (IHT) on a business sale
- Recognise how to use key reliefs and strategies to maximise what you keep
- Be able to plan effectively for managing your proceeds and long-term goals

“Planning early allows you to structure the sale efficiently, make full use of available reliefs, and take control of what happens next”

Common pitfalls to avoid

Missing out on valuable reliefs

Having no clear plan for the proceeds

Failing to meet key qualifying conditions

Losing valuable IHT relief after the sale

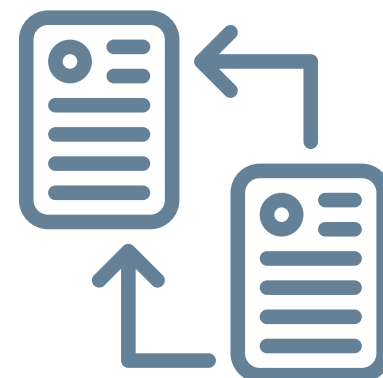
Poor timing on the sale

Minimising tax on sale

Making the most of Business Asset Disposal Relief (BADR)

Business Asset Disposal Relief (BADR) is one of the most valuable tax reliefs available when selling a business. It's therefore a crucial consideration that should not be overlooked. Where it applies, it allows qualifying gains of up to £1 million to be taxed at a reduced rate of 18%, rather than the standard CGT rate of up to 24%.

In order to qualify, certain conditions must be met. Typically, you must have owned the business (or shares) for at least two years. If you are selling shares, you must also hold at least 5% of the voting rights and share capital, with entitlement to profits and assets on a sale or wind-up.

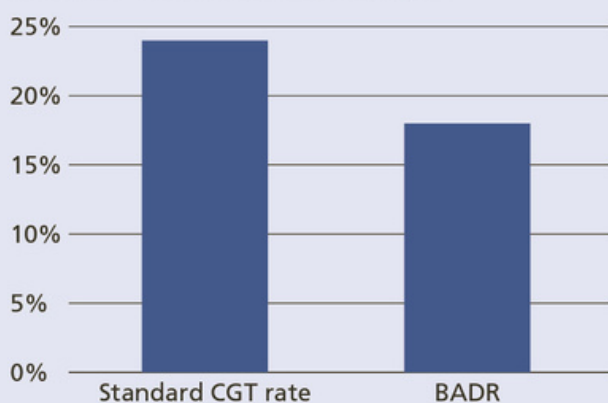


If the business has already ceased trading, you may still qualify, but only if the disposal takes place within three years.

Deferral options and reducing your tax liability

Benefiting from lower capital gains tax (CGT) rates on business sales

For higher or additional rate taxpayers



BADR = Business Asset Disposal Relief, up to £1m lifetime limit

Source: www.gov.uk

Even after making use of BADR and your annual £3,000 CGT allowance, it's likely that a substantial tax liability will remain. However, there are strategies available to manage when and how that tax is paid.

Holdover Relief allows you to defer capital gains when gifting certain assets, effectively passing the tax liability down to the recipient. This can be particularly useful as part of a wider succession plan.

Alternatively, investment into Enterprise Investment Schemes (EIS) provide an opportunity to defer gains by reinvesting proceeds into qualifying investments. In addition to CGT deferral, EIS investments offer further tax advantages and potential for growth, although they are illiquid and carry investment risk.

Protecting wealth from Inheritance Tax (IHT)

“IHT planning should be a focal point of your exit strategy, not an afterthought later down the line”

The impact of selling on IHT

While business assets can benefit from up to 100% Business Relief (BR) for Inheritance Tax (IHT) purposes, this relief is often lost on sale. That’s because once the business is sold, the proceeds become part of your personal estate and may then be fully exposed to IHT.

This can result in a significantly higher tax liability for your beneficiaries if no action is taken. As such, IHT planning should be a focal point of your exit strategy, not an afterthought later down the line.

Reinvesting for IHT efficiency

One way to mitigate this exposure is to reinvest sale proceeds into assets that qualify for Business Relief. Certain unquoted investments and Enterprise Investment Scheme (EIS) opportunities can restore IHT efficiency while still offering potential for capital growth.

This approach allows you to maintain access to your capital while retaining valuable IHT relief – providing certain qualifying conditions are met.

Replacement property rules

Replacement property rules can also help preserve IHT relief when disposing of qualifying business assets.

To benefit, proceeds must typically be reinvested into qualifying Business Property Relief (BPR) assets within three years of disposal. In addition, the replacement asset must usually be held for at least two of the five years immediately before death.



TIP

Up to £2.5 million of qualifying BPR assets can be passed on free from IHT, providing conditions are met.

These rules provide an opportunity to maintain IHT efficiency, even after exiting your original business.

Planning for life after the sale

“Selling a business turns tax-relieved assets into personal wealth, fully within the estate and exposed to IHT”

Cash flow planning: creating clarity

Selling a business turns tax-relieved assets into personal wealth, fully within the estate and exposed to IHT. Without a clear plan, therefore, receiving a lump sum can quickly become overwhelming.

That’s where cash flow planning becomes essential. This crucial tool helps you map out your financial future by forecasting income, expenditure, and capital needs. By stress-testing different scenarios with a Lumin adviser, you can gain clarity on how much you can afford to spend, invest, or gift while maintaining financial security.

NOTE

This visual clarity is essential when considering IHT strategies and ensuring your wealth supports both your lifestyle and your long-term objectives.

Gifting: passing on wealth effectively

Gifting remains one of the most effective ways to offset the impact of IHT. This can be achieved through both absolute gifts and discretionary gifts.

Absolute gifts allow you to transfer unlimited value to beneficiaries, immediately removing those assets from your estate. However, the key trade-off is that the donor relinquishes full control over the assets.

Discretionary gifts, often made through trusts, allow you (and/or your appointed trustees) to retain some element of control over how assets are distributed. However, so as not to have an immediate tax charge, these are typically limited to the nil-rate band of £325,000 per person over a seven-year period. Any amount above this threshold may trigger an immediate 20% lifetime tax charge on the excess.

PLANNING TIP

The order of gifting is very important as getting the order wrong can trigger the **‘14-year rule’** and increase the overall tax liability.

Before and after: IHT position following £1 m gift and BPR planning

Assumptions: A married couple (benefiting from two £325,000 nil rate bands) makes a £1 m lifetime gift (surviving 7 years), with £500k reinvested into immediately BPR-qualifying assets (under replacement property rules), no change in asset values, and a 40% IHT rate applied

Scenario comparison	Before	After	Important to note
Property	£1,000,000	£1,000,000	
Cash, pensions & investments	£500,000	£1,500,000	£1,000,000 to investments, pension and cash
Business Relief qualifying investment	–	£500,000	£500,000 to BPR investment ¹ , nil-rated for IHT
Proceeds of business sale	£2,500,000	–	
Estate	£4,000,000	£3,000,000	
Gifted		£1,000,000	
IHT liability	£1,340,000	£740,000	

1 Immediately qualifying due to replacement property provision

Source: Lumin Wealth

£600,000
IHT saving

Trust-based solutions: flexibility and control

For those seeking greater flexibility, Loan Trusts can offer an effective alternative to the gifting methods outlined above.

Rather than gifting assets outright, you loan funds to a trust. This loan remains part of your estate, so it is not treated as a gift for IHT purposes. The trust can then repay the loan gradually through tax-deferred withdrawals. However, if the loan is invested within the trust, all growth is immediately outside the estate.

Over time, often across a period such as 20 years, for example, this structure allows value to be passed to beneficiaries in a controlled and tax-efficient manner and thus improving your legacy. On top of all that, it provides you with access to funds or income as needed. However, these arrangements typically require a longer time horizon in order to deliver the full benefit.

Final thoughts: Coordinated planning is key

A successful business sale is about more than achieving the right price. It is about ensuring that what you keep, and what you pass on, is maximised to its full potential, benefiting you and your loved ones.

The timing of your sale, the structure of the transaction, and the decisions you make afterwards all play a critical role in the outcome and the amount of money you save. These are complex areas that require careful coordination between financial planners, accountants, and legal advisers. But with a robust and effective plan in place, you can reduce tax, protect your wealth, and create a lasting legacy for future generations.

In expert hands with Lumin

Lumin is a leading independent chartered financial planner headquartered in St Albans, with particular reach across London and the South East. We offer trusted and professional advice on pensions and retirement, investments, inheritance and tax planning, financial protection for individuals and businesses, as well as mortgages. Lumin's financial solutions are geared toward growing and protecting wealth by optimising our clients' income, assets, minimising their tax burden whilst improving their financial security.

Whatever your financial ambitions, you can count on our expertise to provide peace of mind. We are backed by VZ Group, the leading independent financial services provider in Switzerland.



*Financial advice made easy:
Scan the QR code to arrange a complimentary meeting over a coffee.*

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