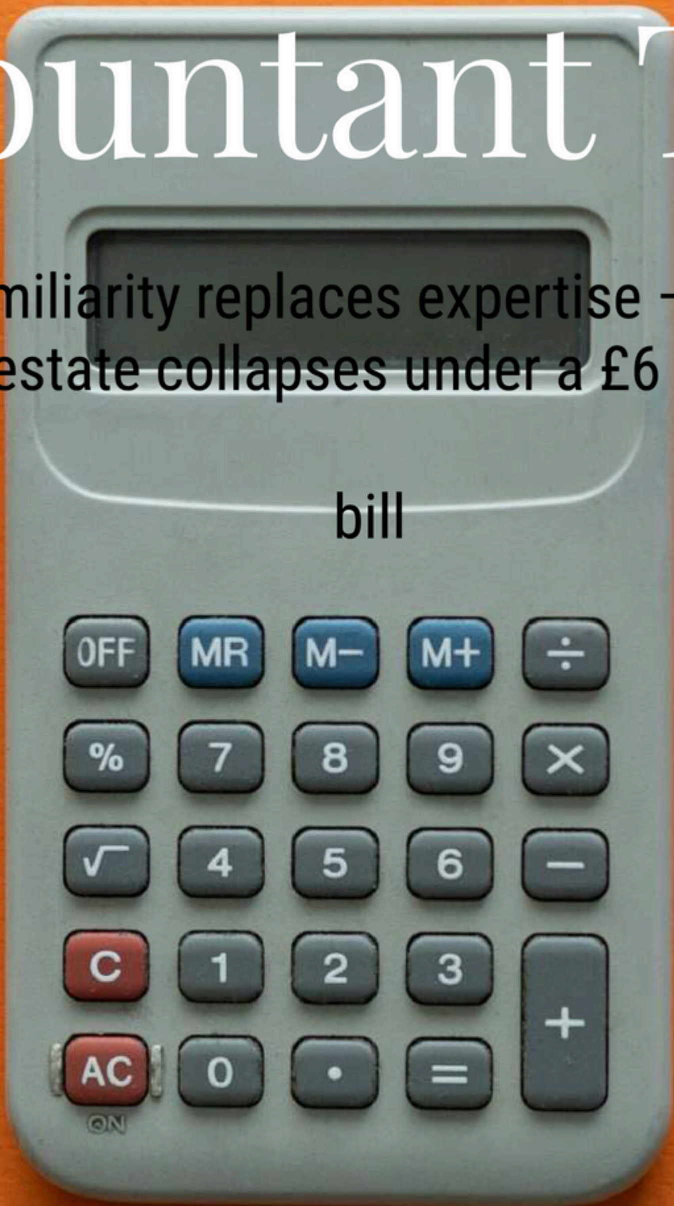
Mistake 7
The Family Accountant Trap

When familiarity replaces expertise — and a £10 million estate collapses under a £6 million tax bill

bill



Mistake 7 – The Family Accountant Trap

In finance, trust is a powerful thing — but it can also be dangerous. Many families rely on long-standing accountants or advisers who've been with them for years, sometimes decades. These relationships are built on loyalty and comfort. But in inheritance tax planning, comfort is not the same as competence.

That truth hit **the Khanna family of Surrey** with devastating force. Their long-time accountant, a man who had looked after their business since the 1980s, was trusted without question. But one seemingly harmless decision, made in a moment of fear, would later dismantle a carefully built estate and cost the family **over £6 million** in tax and penalties.

The Background – A Lifetime of Hard Work

By the early 2000s, **Mr and Mrs Khanna** were in their seventies. Over four decades, they had turned a modest import business into a prosperous operation with properties, investments, and company shares worth roughly **£4.8 million**.

They had four children — **Arjun**, who managed the family business, and three daughters, **Priya**, **Sonal**, and **Rina**, all of whom were married and financially independent. The Khannas weren't extravagant people; they simply wanted to ensure that their wealth stayed within the family, rather than being handed to HMRC.

Their accountant, who had worked with them for more than thirty years, was effectively part of the family. He had guided them through recessions, business expansions, and property purchases. So when he suggested creating a **Family Investment Company (FIC)** to mitigate inheritance tax, it sounded perfectly sensible.

The Setup – A Smart Structure

The FIC was designed along textbook lines. **Mr and Mrs Khanna** would retain **voting and management shares**, ensuring control, while their **children** would hold **non-voting growth shares**, meaning they would benefit from any increase in the company's value.

This way, control stayed with the parents while future growth was pushed outside their taxable estate — a legitimate and proven IHT strategy.

For almost a decade, it worked flawlessly. The company performed well, assets grew, and the family accountant assured them that everything was secure. By **2019**, the family's combined wealth exceeded **£9.5 million**.

Then, a single moment of fear changed everything.

The Turning Point – Fear, Not Favour

In **2014**, the Khannas' son, Arjun, ran into business trouble. A side venture went wrong, and creditors began circling. Mr Khanna was worried that if things worsened, Arjun's situation might expose the family company to risk.

Driven by a desire to **protect the family's assets**, not by affection but by fear of losing what he had built, Mr Khanna asked the accountant to "tighten control" of the FIC. He wanted to make sure that no decisions could be made without his approval.

The accountant responded by **amending the company's articles** to give Mr Khanna **director veto rights** — a clause allowing him to overrule decisions and exercise direct control if needed.

It was intended as a temporary safeguard — an insurance policy against potential chaos. Within eight months, as Arjun's financial issues stabilised, the clause was removed. Mr Khanna never once used his new authority. On the surface, life returned to normal.

But in the eyes of HMRC, those eight months were all that mattered.

The HMRC Challenge

After Mr Khanna's death in **2021**, HMRC began a standard review of his estate, which was now valued at **£10.2 million**. Buried in the company's historic filings, they found the amendment giving him veto powers.

To HMRC, that clause was not an administrative footnote — it was proof that Mr Khanna had **retained control** over the company and, therefore, still benefited from it.

Under inheritance tax law, any retention of benefit or control, even for a short period, invalidates the claim that assets are outside the estate. In HMRC's eyes, Mr Khanna had never truly given up control.

The accountant argued that it was temporary, never used, and introduced purely as a defensive measure. HMRC rejected that argument immediately. Inheritance tax law doesn't consider intent — only control.

The Fallout – £6 Million in Tax and Penalties

The decision was catastrophic.

- **Estate value:** £10.2 million
- **Inheritance tax (40%):** £4.08 million
- **HMRC interest (3 years @ ~7%):** £950,000
- **Penalties ("careless" classification):** £600,000
- **Total liability: over £6 million**

The family had no liquidity to cover the tax. Several properties had to be sold quickly, including a London rental block that had been in the portfolio for over 20 years. The fire-sale prices compounded the damage, and by the end of probate, the family's net wealth had almost halved.

The accountant's professional indemnity insurance didn't cover inheritance tax advice, and the courts found no formal contract stating that he had acted as a regulated planner. The family had no recourse and no compensation.

The Emotional Cost

The fallout was deeply personal.

Mrs Khanna, now in her eighties, couldn't understand how something that was meant to protect their estate had instead destroyed it. **Arjun**, already embarrassed by his earlier business failure, carried the blame heavily. His sisters, though supportive, couldn't hide their frustration.

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What had once been a tightly knit family became quietly divided. The accountant — once seen as almost part of the household — resigned from his position. The damage was irreparable.

The Root Problem – Familiarity Replacing Expertise

The tragedy of the Khanna case wasn't fraud or deception — it was overconfidence.

The accountant had been reliable for decades in his role as bookkeeper and business adviser. But inheritance tax is an entirely different world — one governed by intricate laws and ever-evolving HMRC interpretations.

He understood accounting, but not estate law.
He knew numbers, but not control clauses.
And that single misunderstanding — the difference between "owning" and "controlling" — cost the family millions.

Lessons Learned

This story offers powerful lessons for anyone using complex structures such as FICs or trusts:

1. **Fear leads to mistakes.** Acting out of panic or self-preservation often causes more harm than doing nothing.
2. **Never make changes without specialist input.** Even temporary amendments can have permanent consequences.
3. **Keep clear records and approvals.** Every change to a company or trust must be reviewed by a qualified legal adviser.
4. **Rely on the right expertise.** A general accountant or financial adviser is not a substitute for a regulated IHT specialist.
5. **Review your structures regularly.** Circumstances change, and so do the tax rules.

Final Thoughts

The Khannas' story isn't about carelessness — it's about fear. Mr Khanna wasn't trying to outsmart the system or give money away recklessly; he was trying to protect it. But in his attempt to safeguard his estate, he inadvertently triggered the very tax he wanted to avoid.

The accountant meant well, but good intentions don't stand up in law. Estate planning requires precision, not comfort; legal expertise, not familiarity.

This case serves as a warning: in wealth preservation, **fear-based decisions are often the most expensive ones you'll ever make.**

Important Note

This report is for **educational purposes only** and does not constitute financial or tax advice.
For personalised guidance, always consult an **FCA-authorised inheritance tax specialist or solicitor** with expertise in **corporate and trust-based estate planning**.

This story is part of the *Market Insider IHT Series* — revealing how even the smartest structures can crumble when fear, familiarity, and complexity collide.

Mistake 7 – The Family Accountant Trap

In "Mistake 7 – The Family Accountant Trap," the Khanna family's trust in their long-time accountant leads to a catastrophic loss of over £6 million due to a misjudged inheritance tax strategy. What began as a protective measure spiraled into disaster, revealing the dangerous consequences of relying on familiarity instead of expertise in estate planning. This cautionary tale serves as a stark reminder that even well-intentioned decisions can devastate a family's legacy when fear and overconfidence replace sound legal knowledge.